FEDERAL HOME LOAN BANK

OF SAN FRANCISCO

2001 ANNUAL REPORT

power



AS EVERY CRAFTSPERSON KNOWS, USING THE RIGHT TOOL FOR THE TASK AT HAND CAN MAKE ALL THE DIFFERENCE IN THE QUALITY OF THE FINAL PRODUCT. FOR MEMBERS OF THE FEDERAL HOME LOAN BANK OF SAN FRANCISCO, ACCESS TO THE RIGHT FUNDING OPTIONS IS CRITICAL TO THEIR SUCCESS IN ACHIEVING THEIR FINANCIAL OBJECTIVES.

highly effective products

and

THE BANK'S MEMBERS VARY TREMENDOUSLY IN OPERATING PHILOSOPHY, MARKETS SERVED, AND PRODUCTS OFFERED. THEY RANGE IN SIZE FROM \$21 MILLION TO \$186 BILLION. TO MEET THE NEEDS OF SUCH DIVERSE INSTITUTIONS, THE BANK HAS DEVELOPED AN ARRAY OF FUNDING OPTIONS THAT CAN BE USED TO TACKLE MANY DIFFERENT FINANCING CHALLENGES.

programs and counting



opportunity

A SINGLE FINANCING STRATEGY MAY RELY ON A COMBINATION OF BANK PRODUCTS AND PROGRAMS TO ACHIEVE A SPECIFIC GOAL. OR ONE CREDIT PRODUCT MAY DO THE JOB. WHAT'S IMPORTANT IS THAT THE BANK AND THE MEMBER WORK TOGETHER TO IDENTIFY THE RIGHT TOOLS TO EXECUTE THE MEMBER'S PREFERRED FINANCING STRATEGY AND ACHIEVE THE DESIRED RESULT.

MEMBER PROFILE

PETER A. MOZER

SENIOR VICE PRESIDENT AND TREASURER

CALIFORNIA FEDERAL BANK

SAN FRANCISCO. CALIFORNIA

"The Bank has been a true partner in facilitating these transactions. We appreciate the Bank's team approach."

California Federal Bank finds the Adjustable Rate Credit Advance indexed to LIBOR a useful tool for asset/liability management. In a rising rate environment, however, liabilities typically reprice more quickly than assets. In addition, the interest rates on California Federal's adjustable rate assets are tied to a variety of indices, including some that may not move as quickly or go as high as LIBOR.

CHALLENGE

STRATEGY

To protect its balance sheet from rising interest rates, California Federal asked the Bank to embed an interest rate cap in a LIBOR ARC Advance. The cost of the cap was incorporated into the spread to the index. The cap ensures that California Federal's interest cost for a particular advance will not exceed the predetermined strike level.

Embedding a cap in LIBOR ARC Advances helps to offset the differences in how quickly assets and liabilities reprice when interest rates are rising. In effect, the cap slows down the effects of rising interest rates on California Federal's liabilities to better match the repricing characteristics of its assets.



CHALLENGE

When Bank of Walnut Creek recruited Jim Jackson to expand its commercial real estate lending department, Jim immediately recognized that Bank of Walnut Creek could only compete with other lenders if it offered both fixed and adjustable rate loans. But as a matter of policy, Bank of Walnut Creek was not willing to take on the exposure to interest rate risk normally inherent in fixed rate lending.

Bank of Walnut Creek joined the Federal Home Loan Bank of San Francisco in September 2000 and began using Amortizing Advances to match fund commercial real estate loans. Bank of Walnut Creek locks in the rate on the advance on the same day it locks in the rate on the real estate loan, matching the loan amount, maturity, and repayment structure, and building in its required spread.

STRATEGY

new arena.

RESULT



Bank of Walnut Creek's commercial real estate loan

MEMBER PROFILE

TOM MANTOR

PRESIDENT

BANK OF WALNUT CREEK

WALNUT CREEK, CALIFORNIA

"Match funding with the Bank's
Amortizing Advance has enabled
us to create a viable, full-fledged
commercial real estate loan program
and given us a real presence in
this market."

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MEMBER PROFILE

CARL F. RANSBURG

SENIOR VICE PRESIDENT, FINANCE, AND CHIEF FINANCIAL OFFICER

POINT LOMA CREDIT UNION

SAN DIEGO, CALIFORNIA

"Some credit unions have an aversion to borrowing wholesale funds, but using Bank advances can be less expensive and gives you control over the structure, amount, and maturity of the transaction."

Point Loma Credit Union's high loan to share ratio was exacerbated in 2001 by an influx of fixed rate mortgage refinances, which created both a demand for liquidity and additional interest rate risk at historically low rates. And depositors weren't interested in locking in long-term rates on their certificates of deposit precisely because of the low interest rate environment.

CHALLENGE

STRATEGY

Over the course of six months, Point Loma took down a series of relatively small Fixed Rate Credit Advances with terms of 1, 2, 3, and 5 years, typically borrowing once every two weeks, often in several maturities. Its goal was to space out the advance terms over the following five years, in effect creating a laddered liability.

Point Loma satisfied its immediate liquidity needs and locked in a low, blended fixed rate on its borrowings while dampening the potential future effect of rising rates on rapidly repricing liabilities. As these advances mature, Point Loma expects to be able to walk its cost of funds up the yield curve slowly, rather than having to reprice the entire amount at once.



CHALLENGE

Xerox Federal Credit Union wanted to replace income lost as the result of an asset sale and put its capital back to work. Xerox FCU decided to explore creative ways to finance a securities purchase, focusing on a laddered approach that would enable it to keep its long-term funding costs low while managing interest rate risk.

Xerox FCU took down seven advances, including a 10-year Putable with a 5-year lockout and a 5-year Putable with a 2-year lockout. For the 5-year Putable, Xerox FCU asked the Bank to embed a "knockout" indexed to LIBOR so that the Bank can only exercise its put option on the advance if LIBOR reaches or exceeds the predetermined strike rate.

STRATEGY

RESULT

Even with the embedded knockout, the 5-year Putable was considerably less expensive than a standard Fixed Rate Credit Advance, increasing the credit union's yield on its leveraged transaction. Xerox FCU expects that placing a condition on the put may reduce the likelihood that it will be exercised and give the credit union more time to plan ahead for replacement funding if rates rise more than anticipated.

MEMBER PROFILE

CHRISTINA C. BROWN

SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

XEROX FEDERAL CREDIT UNION

EL SEGUNDO, CALIFORNIA

"Bank staff were very flexible and open to creating a new structure, and we were very happy with their willingness to try something new."

MEMBER PROFILE

KENNETH L. DONAHUE

SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

UNITED SECURITY BANK

FRESNO, CALIFORNIA

"Using the Bank's Letter of Credit was a much more cost-effective way to meet our liquidity needs. We wanted to find out how it would work, and it turned out to be a perfect fit."

United Security Bank needed liquidity to support loan growth and wanted to keep its interest expense low. Although it had enough capital to qualify for additional deposits from the State of California, all of the securities collateral it had pledged to the state was already being used to support existing deposits.

CHALLENGE

STRATEGY

United Security was the first member to use the Bank's Standby Letter of Credit to collateralize California State deposits. United Security collateralized the Letter of Credit from the Bank with whole loans rather than the securities collateral that the state would have required.

Even with the Letter of Credit fee, the all-in cost for the deposits was very attractive, enabling United Security to fund its loans at a lower cost relative to other funding sources. The ability to pledge whole loans as collateral added to the cost efficiency of this funding strategy.



Fixed Rate Credit (FRC) Advance

Callable FRC Advance

Putable Advance

Amortizing Advance

Flexible Amortizing Advance

Variable Rate Credit (VRC) Advance

Adjustable Rate Credit (ARC) Advance

DN Auction-Indexed Advance

Securities-Backed Credit (SBC) Program

Guaranteed Availability of Liquidity Advance (GALA)

Other Cash Needs (OCN) Advance

Standby Letters of Credit

Interest Rate Swaps, Caps & Floors

Community Investment Program (CIP)

Advances for Community Enterprise (ACE)

Affordable Housing Program (AHP)

Individual Development and Empowerment Account (IDEA) Program

Mortgage Partnership Finance® (MPF®) Program

THE PRODUCTS AND PROGRAMS LISTED HERE REPRESENT THE BASIC ARRAY OF FUNDING OPTIONS THE BANK OFFERS.

BUT WHEN YOU CONSIDER THE POSSIBLE VARIATIONS IN MATURITIES, INDICES, CASH FLOW AND PAYMENT OPTIONS,

AND EMBEDDED FEATURES SUCH AS SWAPS. CAPS. AND FLOORS. IT IS CLEAR THAT THIS LIST IS JUST THE BEGINNING.

powered by performance

financial highlights

(DOLLARS IN THOUSANDS)	2001	2000	1999	1998	1997
SELECTED ITEMS AT YEAREND					
Total Assets	\$135,355,738	\$140,190,008	\$115,912,047	\$81,123,903	\$60,846,583
Advances	102,254,552	110,031,641	90,513,829	63,989,305	49,272,904
Mortgage-Backed Securities	13,769,033	10,762,539	7,048,793	5,670,246	5,639,169
Resale Agreements	2,150,000	400,000	2,558,885	2,226,625	1,174,920
Federal Funds Sold	8,445,000	8,376,000	8,636,000	4,894,000	2,329,000
Other Non-MBS Investments	7,814,726	7,460,154	5,035,236	2,705,565	1,116,618
Consolidated Obligations	125,939,751	129,463,039	107,402,435	73,960,601	55,380,528
Capital	6,809,464	6,292,145	5,438,399	4,435,302	3,544,880
Tangible Capital to Assets Ratio	5.03%	4.49%	4.69%	5.47%	5.83%
AVERAGE ANNUAL MARGINS AND	COSTS				
Net Interest Margin	0.41%	0.44%	0.41%	0.49%	0.56%
Other Operating Expenses as a					
Percent of Average Assets	0.04	0.03	0.04	0.05	0.05
ANNUAL OPERATING RESULTS					
Net Interest Income	\$554,307	\$554,573	\$386,956	\$331,281	\$301,209
Net Income	424,589	376,589	332,553	294,066	249,072
Return on Average Assets	0.31%	0.29%	0.35%	0.43%	0.46%
Return on Average Equity	6.49	6.37	6.87	7.54	7.44
Dividend Rate	5.99	7.17	5.36	5.76	6.10
ADJUSTED ANNUAL OPERATING F	RESULTS*				
Adjusted Net Income	\$375,174	\$381,380	\$289,422	\$231,422	\$209,461
Adjusted Net Interest Margin	0.41%	0.45%	0.42%	0.51%	0.58%
Adjusted Return on Average Assets	0.27	0.30	0.30	0.34	0.38
Adjusted Return on Average Equity	5.74	6.46	5.98	5.93	6.26
Potential Dividend Yield	5.80	6.57	6.10	6.03	6.35
Dividend Benchmark	4.69	6.01	5.36	5.77	5.93
Spread of Potential Dividend Yield					
to Dividend Benchmark	1.11	0.56	0.74	0.26	0.42
RECONCILIATION OF NET INCOME	E TO ADJUSTED N	NET INCOME			
Net Income	\$424,589	\$376,589	\$332,553	\$294,066	\$249,072
Net Nonrecurring Items,					
Net of Amortization	1,390	4,791	4,563	(14,141)	9,491
Fair Value Adjustments, Net	(50,805)	_	_	_	_
REFCORP Assessments			(47,694)	(48,503)	(49,102)
Adjusted Net Income	\$375,174	\$381,380	\$289,422	\$231,422	\$209,461

^{*}The Bank uses certain adjusted financial performance measures to provide more meaningful comparisons of the Bank's performance over time. Adjusted financial performance measures reflect earnings before nonrecurring items (advance prepayment fees, certain extraordinary gains and losses associated with the early retirement of debt, and certain other material nonrecurring gains and losses), net of the amortization of current and prior period nonrecurring items, in accordance with the Bank's retained earnings policy. Adjusted financial performance measures also exclude any current period fair value adjustments (net of applicable assessments) resulting from the adoption of SFAS 133 on January 1, 2001, which include adjustments made in accordance with SFAS 133 and adjustments on held-at-fair-value securities reclassified from held-to-maturity securities upon the adoption of SFAS 133. In addition, as a result of the Gramm-Leach-Bliley Act of 1999, beginning in 2000 the REFCORP assessment is classified as an expense and is included on the Bank's income statement. Before 2000, the REFCORP assessment was a charge to capital and did not appear on the income statement. These adjusted financial performance measures present the Bank's operating results after subtracting the REFCORP assessments for 1997 to 1999.

to our members

In 2001, the Federal Home Loan Bank of San Francisco continued to deliver the products and programs members need to provide accessible and affordable credit to their communities. The Bank's members operate in a complex and challenging business environment, one that demands financial sophistication and powerful tools to help them remain stable and profitable over the long term. As the profiles in this year's annual report demonstrate, members rely on the Bank to help them manage liquidity, control costs, reduce interest rate risk, and create new loan products. In addition, the Bank's community investment programs and initiatives help members in their efforts to revitalize neighborhoods and bridge the housing affordability gap for lower income families. Throughout the year, the Bank explored new ways to help members achieve these diverse goals.

In 2001, the nation's economy slowed and interest rates fell to record lows, causing a surge in mortgage refinancings and a shift from adjustable rate to fixed rate loans. As members experienced strong retail deposit growth coupled with attractive alternative sources of funds, member demand for advances started to taper off during the second quarter of the year. While average advances increased 8% in 2001 relative to the prior year, total advances declined by \$7.8 billion, or 7%, from yearend 2000 to yearend 2001.

Two-thirds of the members took advantage of the Bank's credit programs during 2001. Many members seized the opportunity presented by historically low interest rates to lock in long-term fixed rate funding, resulting in an \$11.5 billion increase in long-term fixed rate advances during the year. In all, 218 of the Bank's 324 members had advances outstanding during 2001, and 120 members increased their advance borrowings between yearend 2000 and yearend 2001.

To give Community Financial Institutions greater access to Bank credit, as authorized by the Gramm-Leach-Bliley Act, in 2001 the Bank introduced guidelines for CFIs to pledge small business, small farm, and small agribusiness loans. The Bank also expanded its collateral guidelines for residential second lien mortgage loans and

home equity lines of credit, and it began accepting the pledge of loans registered with MERS®. In addition, the Bank instituted a policy on predatory lending, which defines the criteria the Bank will use to determine whether a loan is predatory and therefore ineligible to be pledged to the Bank as collateral.

The Bank launched its participation in the Mortgage Partnership Finance® Program in 2001 to provide members with a competitive alternative to the traditional secondary market. Under the program, the Bank buys conventional conforming and government-guaranteed fixed rate mortgage loans from members and pays them monthly credit enhancement fees for managing the credit risk of the loans. The MPF® Program allows members to capitalize on their expertise in managing credit risk while taking advantage of the Bank's ability to manage the interest rate and prepayment risks inherent in long-term fixed rate mortgages. Five members signed up as Participating Financial Institutions during the year, and the Bank expects to begin buying loans from members in 2002.

To support members' efforts to create affordable housing for low- and moderate-income households and foster community economic development, the Bank funded \$618.8 million in Community Investment Program advances in 2001. In addition, the Bank funded \$24.3 million in Advances for Community Enterprise to support job creation and retention. The Bank also issued \$125.4 million in housing-related letters of credit and \$5.6 million in letters of credit designed to support job creation and retention.

The Bank's Affordable Housing Program continues to be a popular, and therefore highly competitive, program. In 2001, the Bank received 287 applications and awarded \$38.3 million to 123 winning projects and programs to help create affordable housing for 6,810 very low-, low-, and moderate-income households. Since 1990, the Bank has awarded to the Bank's members and their affordable housing developer partners over \$234 million to help more than 48,000 families and individuals obtain quality affordable housing or purchase a home of their own.

In the second year of the Individual Development and Empowerment Account Program, the Bank awarded \$6.6 million to provide matching grants to first-time homebuyers saving to buy a home through an individual development account or through HUD's Family Self-Sufficiency Program.

In 2001, the Bank continued to foster collaborative efforts among faith-based organizations and financial institutions under its Faith-Based Housing and Economic Development Initiative, which was launched in 2000. The Bank conducted four workshops throughout the District and co-sponsored a faith-based conference with HUD, helping to connect faith organizations to a variety of resources, training opportunities, and potential partners to further their involvement in affordable housing and community economic development. Partly as a result of these efforts, 18 faith organizations were successful in winning \$4 million in AHP subsidy during the year.

In the fall of 2002, the Bank will host "Expanding the Territory," a conference for faith communities, financial institutions, housing and economic development corporations, public agencies, and community groups that will focus on expanding the role of faith communities in affordable housing and community economic development through new strategies for capitalization, collaboration, and education.

The high cost of housing in metropolitan areas throughout the 11th District creates an affordability challenge not only for low-income households, but for middle-income workers as well. Teachers, firefighters, nurses, police officers, and service workers, among others, often cannot afford to buy a home near the cities where they work. In 2001, the Bank joined forces with the San Francisco Chamber of Commerce to create a pilot workforce housing initiative to provide homeownership assistance to people who work in San Francisco and earn up to 120% of area median income. The Bank's goal is to create a model program that can be replicated in other high-cost areas with low homeownership rates and to purchase securities backed by first mortgages originated under the pilot or under similar workforce housing programs.

Details of the pilot workforce housing initiative will be announced in San Francisco on April 26, 2002, at a conference hosted by the Bank and the San Francisco Chamber of Commerce. "Workforce Housing Summit: Creating Homeownership Opportunity" will also examine the urgent need for workforce housing in the San Francisco Bay Area and will explore innovative financing and development strategies to address the current affordability crisis.

One measure of the Bank's value to community-oriented lenders is its success in attracting new members. In 2001, 52 financial institutions joined the Bank, bringing total membership to a record 324 institutions, including 210 banks, 55 credit unions, 46 savings institutions, and 13 thrift and loan companies. Each of these new members represents another opportunity for the Bank to promote housing and community economic development in Arizona, California, Nevada, and the other regions served by these members.

As a cooperative, the Bank seeks to balance its goal of providing low-cost credit to members in fulfillment of its public policy mission with a second key objective: to provide a reasonable rate of return on the capital supplied by its members. In general, the Bank seeks to pay a market-rate dividend, which is primarily based on the Bank's earnings on invested capital, and uses earnings on member credit and on other investments to pay the Bank's operating expenses and assessments (with additional earnings, if any, also contributing to the dividend). The Bank invests member capital in high-quality, short- and intermediate-term financial investments to reduce the risk of loss if investments have to be liquidated to redeem excess stock.

The Bank paid an annual dividend rate of 5.99% for 2001, a relatively high rate of return given the low interest rate environment that prevailed throughout the year. The annual dividend rate for 2000 was 7.17%, reflecting higher interest rates and two supplemental payouts of retained earnings, which added 0.63% to the annual dividend yield.

The Bank finalized its proposed capital plan and submitted it to the Federal Housing Finance Board on October 29, 2001, the deadline specified in the final capital rule. The Bank is working with the Finance Board as it reviews the plan and is making other preparations for implementing the plan. The Bank's proposed capital plan is available on the Bank's website at www.fhlbsf.com.

In closing, we thank all those who made a significant contribution to the Bank's performance in 2001—the Board of Directors, the Affordable Housing Advisory Council, and Bank staff. In particular, we would like to acknowledge five directors whose terms ended on December 31, 2001—J. Lance Erikson, John J. Gisi,

Elihu M. Harris, Elvin W. Moon, and Robert F. Nielsen. We also welcome the two new industry directors who joined the Board at the beginning of the year—Kenneth R. Harder and Rick McGill. In addition, we welcome Ross J. Kari, who joined the Bank in February 2002 as Executive Vice President and Chief Operating Officer.

Finally, we would like to thank you, our members, for using the Bank's products and programs to meet your financial goals and respond to the credit needs of your communities. In your skilled hands, we know the tools we offer will be used to make a difference in the lives of people throughout the 11th District and the other regions you serve.



D. TAD LOWREY
VICE CHAIRMAN OF THE BOARD



Mary Lee Widener

MARY LEE WIDENER CHAIRMAN OF THE BOARD



Clean Soly

DEAN SCHULTZ
PRESIDENT & CHIEF EXECUTIVE OFFICER

OVERVIEW

The net income of the Federal Home Loan Bank of San Francisco (Bank) increased \$48.0 million, or 13%, to \$424.6 million in 2001 from \$376.6 million in 2000. This increase was due to the effects of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133), which became effective on January 1, 2001 (see "Interest Rate Exchange Agreements" on page 28). The Bank recognized a net gain (net of applicable Resolution Funding Corporation [REFCORP] and Affordable Housing Program [AHP] assessments) of \$50.8 million in 2001, which reflected net gains from fair value adjustments made under SFAS 133 and net gains on held-at-fair-value securities reclassified from held-to-maturity securities upon the adoption of SFAS 133. As a result, the Bank's return on equity (ROE) increased 12 basis points, to 6.49% in 2001 from 6.37% in 2000. Since the net gains from fair value adjustments under SFAS 133 and on held-at-fair-value securities are primarily a matter of timing, the net gains will generally be reversed over the remaining contractual terms to maturity of the financial instruments and associated interest rate exchange agreements. Therefore, in accordance with the Bank's retained earnings policy, the Bank restricts retained earnings for any cumulative net gains (net of applicable assessments) resulting from cumulative fair value adjustments. Excluding the impact of these net gains, net income for 2001 would have been \$373.8 million, a decrease of \$2.8 million relative to 2000, and ROE for 2001 would have been 5.71%, a decrease of 66 basis points relative to 2000. These declines are primarily a result of the significant decline in interest rates during 2001, which reduced earnings on invested member capital.

The Bank paid an annual dividend of 5.99% for 2001, compared to 7.17% in 2000. This decrease primarily resulted from two factors: the supplemental payouts of retained earnings in 2000, which added 0.63% to the annual dividend yield, and the significant decline in the interest rate environment in 2001, which resulted in lower earnings on invested member capital.

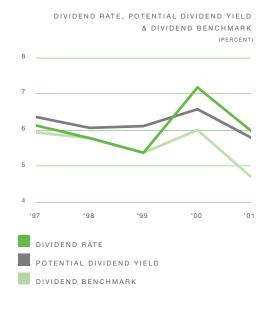
Total assets declined \$4.8 billion, or 3%, to \$135.4 billion as of December 31, 2001. Advances decreased \$7.8 billion, or 7%, to \$102.3 billion. Partially offsetting the decline in advances, the Bank's investment in short-term interest-bearing deposits increased \$1.8 billion, securities purchased under agreements to resell increased \$1.8 billion, and held-to-maturity securities increased \$1.0 billion, as the Bank took advantage of favorable investment opportunities.

On an average basis, the Bank's advances and total assets grew 8% in 2001 relative to 2000, to \$107.6 billion and \$139.1 billion, respectively. In addition, average interest-bearing deposits and average held-to-maturity securities increased to \$3.6 billion and \$14.9 billion, respectively.

FINANCIAL PERFORMANCE

As a cooperative, the Bank seeks to maintain a balance between its public policy mission and its ability to provide adequate returns on the capital supplied by its members. The Bank achieves this balance by delivering low-cost financing to help members meet the credit needs of their communities while paying members a market-rate dividend. The dividends paid by the Bank are largely the result of the Bank's earnings on invested member capital, while net earnings on member credit, mortgage-backed securities (MBS), and other investments are generally used to pay the Bank's operating expenses and assessments (with additional earnings, if any, also contributing to the dividend).

Reflecting the Bank's unique cooperative nature, the Bank's financial strategies are designed to enable the Bank to expand and contract in response to member credit needs. The Bank invests member capital in high-quality, short- and intermediate-term financial instruments. This strategy reduces the risk of loss if investments have to be liquidated to redeem excess capital stock.



Statements contained in this report, including statements describing the objectives, projections, estimates, or predictions of the future of the Bank, may be "forward-looking statements." These statements may use forward-looking terms, such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or their negative or other variations on these terms. The Bank cautions that, by their nature, forward-looking statements involve risk or uncertainty and that actual results could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate, or prediction

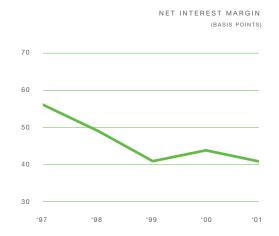
is realized. These forward-looking statements involve risks and uncertainties including, but not limited to, the following: economic and market conditions; volatility of market prices, rates, and indices; political, legislative, regulatory, or judicial events; a new capital structure; competitive forces; changes in investor demand for consolidated obligations and/or the terms of interest rate exchange agreements and similar agreements; and timing and volume of market activity. Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the Bank's financial statements and notes, which begin on page 35.

To measure its financial performance, the Bank compares the "potential dividend yield" on capital stock to a dividend benchmark. The "potential dividend yield" is current period earnings (excluding nonrecurring items and fair value adjustments) as a percentage of capital stock. The Bank's dividend benchmark reflects the Bank's capital investment strategy and is calculated as the average of two yields: the daily average of the overnight Federal funds effective rate and the four-year moving average of the four-year Treasury note yield. The spread between the potential dividend yield and the dividend benchmark represents the financial return on the members' investment in Bank capital stock relative to the return on a comparable investment in short-term money market and intermediate-term Treasury investments.

The Bank's potential dividend yield was 5.80% for 2001, 111 basis points above the dividend benchmark, and 6.57% for 2000, 56 basis points above the dividend benchmark. The increase in the spread to the dividend benchmark in 2001 is primarily the result of wider spreads earned on the MBS portfolio and the reduction in REFCORP and AHP assessments that would have occurred without the effects of SFAS 133.

RESULTS OF OPERATIONS

Net Interest Income. Net interest income decreased by \$0.3 million, or 0.05%, to \$554.3 million in 2001. The effect of an \$11.0 billion increase in average interest-earning assets was offset by the effect of a 3-basis-point decrease in the net interest margin, which declined to 41 basis points in 2001 from 44 basis points in 2000. This decline was primarily due to lower earnings on capital resulting from the significant drop in interest rates during 2001, and, to a lesser degree, narrower profit spreads on advances and investments. The narrower profit spreads were mainly due to the higher cost of Federal Home Loan Bank (FHLBank) discount notes relative to other market interest rates primarily because of an increase in the issuance of similar debt by federal agencies and the U.S. Treasury. These decreases were partially offset by improved earnings from the Bank's MBS portfolio resulting from higher investment balances and spreads. The average yield on interest-earning assets in 2001 was 4.50%, compared to 6.44% in 2000, a decrease of 194 basis points. The average cost of interest-bearing liabilities decreased 202 basis points, to 4.32% in 2001 from 6.34% in 2000.



Other Income. Other income increased \$76.8 million to \$82.1 million in 2001 from \$5.3 million in 2000. Other income consists primarily of net gains on derivatives and hedging activities of \$64.0 million, net gains on held-at-fair-value securities of \$7.7 million, prepayment fees collected from members of \$6.0 million, and fees earned on letters of credit of \$0.9 million. Prepayment fees increased \$5.6 million in 2001. Members prepaid \$1.9 billion of advances in 2001, compared to \$0.9 billion in 2000. Other income also includes the amortization of the deferred gain resulting from the 1999 sale of the Bank's office building in San Francisco, which totaled \$2.1 million in both 2001 and 2000. The remaining unamortized amount of the deferred gain on the sale of the building at December 31, 2001, was \$15.4 million.

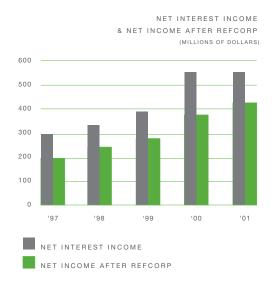
Other Expenses. Other expenses increased to \$55.5 million in 2001 from \$48.7 million in 2000, primarily as a result of a \$6.0 million increase in operating expenses. Operating expenses increased 14% in 2001, while average assets increased 8%, leading to a slight increase in the Bank's ratio of operating expenses to average assets from 3.3 basis points in 2000 to 3.5 basis points in 2001.

REFCORP and AHP Assessments. Effective January 1, 2000, the annual REFCORP obligation of the FHLBanks was modified by the Gramm-Leach-Bliley Act (GLB Act) from a fixed annual assessment of \$300 million for the 12 FHLBanks combined to 20% of each FHLBank's net earnings (after AHP assessments). With the new assessment, the amount of the Bank's REFCORP payments will rise and fall with its earnings. To the extent that the FHLBanks' annual REFCORP payments are higher or lower than \$300 million, the term of the REFCORP obligation will be shortened or lengthened, respectively, so that the value of all payments made by the FHLBanks is equivalent to a \$300 million annual annuity with a final maturity date of April 15, 2030. The FHLBanks' payments in 2000 shortened the remaining term of the REFCORP obligation to the first guarter of 2026, and the FHLBanks' payments in 2001 further shortened the term to the second quarter of 2023.

Annually, the FHLBanks must set aside for their AHPs, in the aggregate, the greater of \$100 million or 10% of each year's net income before charges for the AHP but after the assessment for REFCORP. To the extent that the aggregate 10% calculation is less than \$100 million, the shortfall is allocated among the FHLBanks based on the ratio of each FHLBank's net income before AHP and REFCORP to the sum of the net incomes before AHP and REFCORP of the 12 FHLBanks combined. There was no shortfall in 2001 or 2000. The Bank set aside a record \$47.2 million for the AHP in 2001, compared to \$41.9 million in 2000, reflecting the higher earnings in 2001.

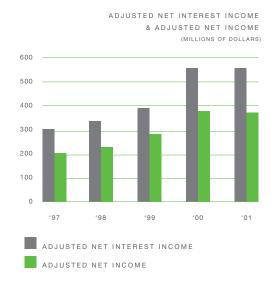
The Bank's total REFCORP and AHP assessments equaled \$153.3 million in 2001, compared with \$136.0 million in 2000, resulting in an effective "tax" rate on preassessment income of 27% for both years. Excluding the fair value adjustments resulting from SFAS 133, the Bank's total REFCORP and AHP assessments would have been \$135.0 million in 2001.

Net Income. Net income increased \$48.0 million, or 13%, to \$424.6 million in 2001 from \$376.6 million in 2000, and return on equity (ROE) increased 12 basis points, to 6.49% in 2001 from 6.37% in 2000, because of the recognition of net gains from fair value adjustments and on held-at-fair-value securities as a result of the adoption of SFAS 133 on January 1, 2001 (see "Interest Rate Exchange Agreements" on page 28). After subtracting the net effect of SFAS 133 for 2001 (a net gain of \$50.8 million, net of applicable assessments), net income for 2001 was \$373.8 million, a decrease of \$2.8 million, or 0.7% from the prior year, and ROE decreased 66 basis points to 5.71% for 2001. The decline in ROE was primarily attributable to lower earnings on member capital resulting from the significant decline in the interest rate environment during 2001 compared to 2000.



upon the adoption of SFAS 133. In addition, as a result of the GLB Act, beginning in 2000 the REFCORP assessment is classified as an expense and is included on the Bank's income statement. Before 2000, the REFCORP assessment was a charge to capital and did not appear on the income statement. Adjusted financial performance measures present the Bank's operating results after subtracting the REFCORP assessments for 1997 to 1999.

Adjusted net income decreased 2%, to \$375.2 million in 2001 from \$381.4 million in 2000. Adjusted ROE decreased by 72 basis points, to 5.74% in 2001 from 6.46% in 2000, primarily because of lower earnings on member capital resulting from the significant decline in interest rates in 2001.



Adjusted Financial Performance. The Bank also calculates adjusted financial performance measures to provide a more meaningful comparison of the Bank's financial results over time. These measures reflect earnings before advance prepayment fees, certain extraordinary gains and losses associated with the early retirement of debt, and certain other nonrecurring gains and losses related to financial instruments, net of the current amortization of current and prior period nonrecurring items, in accordance with the Bank's retained earnings policy. These adjustments are made in order to recognize prepayment fees, debt retirement gains and losses, and other nonrecurring transactions over the periods remaining through the related instruments' original maturity dates. In addition, adjusted financial performance measures exclude the effects of any current period fair value adjustments (net of applicable assessments) resulting from the adoption of SFAS 133, because these effects are generally expected to reverse over time. These fair value adjustments include adjustments made in accordance with SFAS 133 and adjustments on held-at-fairvalue securities reclassified from held-to-maturity securities

Dividends. In 2001, the Bank paid \$386.6 million in dividends, an average annual rate of 5.99%. In 2000, dividends totaled \$416.3 million, an average annual rate of 7.17%. The decline in the dividend rate was primarily attributable to lower earnings on member capital resulting from the significant decline in interest rates in 2001 and to the supplemental payouts of retained earnings totaling \$36.9 million in 2000. All dividends except fractional shares were paid in the form of capital stock.

To provide financial flexibility and in anticipation of the possible effects of implementing SFAS 133, the Bank transferred certain amounts from unrestricted retained earnings to restricted retained earnings in 1999. During 1999, the Bank also transferred to restricted retained earnings the one-time gain of \$8.1 million from the spin-off/termination involving the Bank's cash balance plan and recognized gains totaling \$3.5 million from the sale of the Bank's office building, each net of applicable assessments. Retained earnings restricted by the Bank totaled \$27.9 million at December 31, 1999. In addition, the Bank retained earnings of \$22.3 million in unrestricted retained earnings in 1999.

During the first quarter of 2000, the Bank paid out the unrestricted retained earnings as of December 31, 1999, which equaled \$25.4 million, adding 0.44% to the annual dividend yield. During the second quarter of 2000, in anticipation of SFAS 133, the Bank maintained approximately \$17.1 million of existing restricted retained earnings to offset the projected effect on capital of recognizing in other comprehensive income, a component of capital, the remaining unamortized balance of the deferred losses from certain interest rate exchange agreements previously terminated by the Bank. At that time, the Bank paid out the remaining \$11.5 million from previously restricted retained earnings, adding 0.19% to the annual dividend yield. If the Bank had not paid out these retained earnings, the Bank's dividend for 2000 would have been 6.54%.

On June 22, 2000, the Federal Housing Finance Board (Finance Board) rescinded its dividend policy applicable to the FHLBanks. This rescission effectively eliminated the requirement that the FHLBanks set aside in restricted retained earnings that portion of income from prepayment fees that, if allocated on a pro rata basis over the original term to maturity of the advances prepaid, would be allocated to future dividend periods. Other gains and losses related to the termination of interest rate exchange agreements and early retirement of consolidated obligations were similarly treated. The Bank adopted a policy to continue the practice of restricting retained earnings generally consistent with the Finance Board's rescinded dividend policy. These restricted retained earnings may be transferred to unrestricted retained earnings on a pro rata basis over the original terms of the prepaid advances, interest rate exchange agreements, or consolidated obligations. Retained earnings restricted in accordance with these policies totaled \$6.5 million and \$7.1 million at December 31, 2001 and 2000, respectively.

Also in accordance with the retained earnings policy of the Bank, as of January 1, 2001, the Bank restricts retained earnings for any cumulative net fair value gains in earnings (net of applicable assessments) resulting from SFAS 133. Since these cumulative net gains are primarily a matter of timing, the gains will generally reverse over the remaining contractual terms to maturity of the financial instruments and associated interest rate exchange agreements. Restricted retained earnings may be adjusted as these cumulative net gains are reversed, resulting in substantially the same dividend payout as there would have been without the effects of SFAS 133. Retained earnings restricted in accordance with this policy totaled \$50.8 million at December 31, 2001.

FINANCIAL CONDITION

Total assets decreased 3% during the year, to \$135.4 billion at December 31, 2001, from \$140.2 billion at December 31, 2000, while average total assets rose 8%, to \$139.1 billion in 2001 from \$128.4 billion in 2000.

Advances. Advances outstanding decreased 7% in 2001, to \$102.3 billion at December 31, 2001, from \$110.0 billion at December 31, 2000. However, average advances increased 8%



compared to the prior year, to \$107.6 billion in 2001 from \$100.0 billion in 2000. Advances outstanding at December 31, 2001, included fair value adjustments of \$0.9 billion. Members increased their Bank borrowings during the first quarter, primarily with long-term adjustable rate and fixed rate advances. As the nation's economy slowed and members experienced strong retail deposit growth coupled with attractive alternative sources of funds, advance demand started to taper off during the second quarter of 2001. The Bank's largest members accounted for most of the decrease from the prior yearend. In total, 120 members increased their advance borrowings from yearend 2000 to yearend 2001, while 71 members decreased their advance borrowings.

Investments. The Bank invests in both short- and long-term instruments to maintain liquidity and provide additional earnings. The short-term investment portfolio is primarily composed of Federal funds sold, securities purchased under agreements to resell (resale agreements), negotiable certificates of deposit (interest-bearing deposits in banks), and commercial paper. In determining the amount of assets to invest in each class of securities, the Bank considers the yield, liquidity, and credit quality of each instrument. The long-term investment portfolio, which is composed of MBS and, to a small degree, other housing-related investments, provides the Bank with higher returns than those available in the short-term money markets. Certain of the fixed and adjustable rate MBS in which the Bank invests are guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae and are collateralized by residential mortgages. The Bank also invests in publicly registered, AAA-rated non-agency MBS that are also collateralized by residential mortgages. In addition, the Bank invests in housing finance agency bonds, all of which are AAA-rated adjustable rate mortgage revenue bonds (federally taxable) that are collateralized by pools of residential mortgages.

AVERAGE BALANCE SHEETS

		2001			2000			1999		
		INTEREST			INTEREST			INTEREST		
	AVERAGE	INCOME/	AVERAGE	AVERAGE	INCOME/	AVERAGE	AVERAGE	INCOME/	AVERAGE	
(DOLLARS IN MILLIONS)	BALANCE	EXPENSE	RATE	BALANCE	EXPENSE	RATE	BALANCE	EXPENSE	RATE	
Assets										
Interest-earning assets:	Φ 0.000.0	Φ 140.4	0.000/	\$ 2.007.0	Φ 404.4	0.500/	Φ 1 000 0	Φ 00.5	E 0.40/	
Interest-bearing deposits in banks Resale agreements	\$ 3,636.0 1.544.9	\$ 142.4 63.9	3.92% 4.13	\$ 2,007.0 1.523.9	\$ 131.1 93.9	6.53% 6.16	\$ 1,306.2 2,091.2	\$ 68.5 110.9	5.24% 5.31	
Federal funds sold	8,436.0	349.3	4.13	8,564.7	549.1	6.41	6,813.9	354.5	5.20	
Held-to-maturity securities ¹	14,896.3	828.9	5.56	13,710.6	898.0	6.55	9,128.3	524.8	5.75	
Held-at-fair-value securities	584.3	27.7	4.74	10,7 10.0		- O.00	J, 120.0	- 024.0	O.7 O	
Advances ¹	107,605.3	4,735.9	4.40	99,959.9	6,431.3	6.43	74,689.3	3,970.1	5.32	
Loans to other FHLBanks	26.8	0.8	3.15	10.1	0.7	6.91	8.2	0.4	4.87	
Total interest-earning assets	136,729.6	6,148.9	4.50	125,776.2	8,104.1	6.44	94,037.1	5,029.2	5.35	
Other assets ²	2,357.1	0,140.9	4.50	2,582.9	0,104.1	0.44	1,878.3	5,028.2	3.33	
			4.400/			0.040/		Φ= 000 0	5 O 40/	
Total Assets	\$139,086.7	\$6,148.9	4.42%	\$128,359.1	\$8,104.1	6.31%	\$95,915.4	\$5,029.2	5.24%	
Liabilities and Capital Interest-bearing liabilities: Consolidated obligations:										
Bonds ¹	\$ 94,358.6	\$4,064,3	4.31%	\$ 86,908.7	\$5,527.1	6.36%	\$76.170.9	\$3.962.1	5.20%	
Discount notes ¹	34,782.6	1.514.0	4.35	31,739.5	1,996.8	6.29	12,253.8	666.1	5.44	
Deposits	480.2	16.0	3.33	221.5	13.5	6.10	237.2	11.5	4.87	
Borrowings from other FHLBanks	2.1	0.1	3.80	_	_	_	_	_	_	
Other borrowings	6.1	0.2	3.58	202.7	12.1	5.92	48.0	2.5	5.14	
Total interest-bearing liabilities	129,629.6	5,594.6	4.32	119,072.4	7,549.5	6.34	88,709.9	4,642.2	5.23	
Other Liabilities ²	2,912.1	-,		3,379.1	.,		2,364.4	.,		
Total Liabilities	132,541.7	5,594.6	4.22	122,451.5	7,549.5	6.17	91,074.3	4,642.2	5.10	
Capital	6,545.0	5,594.0	4.22	5,907.6	7,049.0	0.17	4,841.1	4,042.2	5.10	
•										
Total Liabilities and Capital	\$139,086.7	\$5,594.6	4.02%	\$128,359.1	\$7,549.5	5.88%	\$95,915.4	\$4,642.2	4.84%	
Net Interest Income		\$ 554.3			\$ 554.6			\$ 387.0		
Net Interest Spread			0.18%			0.10%			0.12%	
Net Interest Margin ³			0.41%			0.44%			0.41%	
Total Average Assets/Capital Ratio	21.3x			21.7x			19.8x			
Interest-Earning Assets/										
Interest-Bearing Liabilities	1.1x			1.1x			1.1x			

¹ Interest income/expense and average rates include the interest effect of associated interest rate exchange agreements.

The fixed rate, long-term investments are subject to prepayment risk, and the adjustable rate long-term investments are subject to interest rate cap risk. The Bank has managed these risks by (1) funding the fixed rate MBS with non-callable and callable debt, and (2) purchasing certain investments that are structured with interest rate exchange agreements, creating synthetic, floating rate assets that may have lifetime interest rate caps but do not have periodic interest rate caps. This structure provides the Bank with a stable income stream over a range of interest rates.

In accordance with the provisions of SFAS 133, the interest rate exchange agreements associated with held-to-maturity securities are non-hedge qualifying. As a result, the transition provisions of SFAS 133 allowed the Bank to transfer any security classified as held-to-maturity to trading (or "held-at-fair-value"). Therefore, the Bank transferred its portfolio of economically hedged MBS to the held-at-fair-value securities category so that fair value gains or losses on the MBS will partly offset the losses or gains on the associated interest rate exchange agreements. During 2001, this designation allowed the Bank to mark certain

MBS to fair value (for a \$7.7 million gain) to offset the mark-tofair value of the associated interest rate exchange agreements (a \$6.6 million loss), for a net gain of \$1.1 million.

The Bank's MBS portfolio, including MBS held at fair value, increased 28% in 2001, to \$13.8 billion, or approximately 202% of capital, at December 31, 2001, from \$10.8 billion, or approximately 171% of capital, at December 31, 2000. The Bank took advantage of the surge in MBS supply resulting from the increase in mortgage refinancings to increase its MBS portfolio in 2001. However, the increase in the Bank's capital and the rapid paydown of existing MBS investments resulted in balances below the maximum authorized level of 300% of capital.

The Bank's total non-MBS investment portfolio increased to \$18.4 billion as of December 31, 2001, from \$16.2 billion as of December 31, 2000. Interest-bearing deposits in banks increased \$1.8 billion, resale agreements increased \$1.8 billion, housing finance agency bonds increased \$0.6 billion, and Federal funds sold increased \$0.1 billion, while commercial paper decreased \$2.1 billion.

² Includes forward settling transactions and fair value adjustments in accordance with SFAS 133.

³ Net interest margin is net interest income divided by average interest-earning assets.

CHANGE IN NET INTEREST INCOME: RATE/VOLUME ANALYSIS

2001 Compared to 2000

Total interest-earning assets

Consolidated obligations: Bonds²

Discount notes²

Interest-bearing liabilities:

Other borrowings

Deposits

2001 Compared to 2000					TRIBUTABLE TO CHANGES IN ¹		
	INC	CREASE/	A	VERAGE	A	VERAGE	
(IN MILLIONS)	(DEC	CREASE)	١	/OLUME		RATE	
Interest-earning assets:							
Interest-bearing deposits in banks	\$	11.3	\$	64.1	\$	(52.8)	
Resale agreements		(30.0)		2.3		(32.3)	
Federal funds sold		(199.8)		(7.1)		(192.7)	
Held-to-maturity securities ²		(69.1)		65.2		(134.3)	
Held-at-fair-value securities		27.7		26.5		1.2	
Advances ²	(1	,695.4)		292.2	(-	,987.6)	
Loans to other FHLBanks		0.1		0.5		(0.4)	
Total interest-earning assets	(1	,955.2)		443.7	(2	2,398.9)	
Interest-bearing liabilities: Consolidated obligations:							
Bonds ²	(1	,462.8)		283.5	(-	,746.3)	
Discount notes ²	(482.8)			121.3		(604.1)	
Deposits		2.5		8.7		(6.2)	
Borrowings from other FHLBanks		0.1		0.1		_	
Other borrowings		(11.9)		(7.3)		(4.6)	
Total interest-bearing liabilities	(1	,954.9)		406.3	(2	2,361.2)	
Net Interest Income	\$	(0.3)	\$	37.4	\$	(37.7)	
2000 Compared to 1999				ATTRIBL			
			_	CHAN			
	INCREASE/			VERAGE	A	VERAGE	
(IN MILLIONS)	(DEC	CREASE)	١	/OLUME		RATE	
Interest-earning assets:							
Interest-bearing deposits in banks	\$	62.6	\$	45.0	\$	17.6	
Resale agreements		(17.0)		(34.8)		17.8	
Federal funds sold		194.6		110.1		84.5	
Held-to-maturity securities ²		373.2		297.4		75.8	
Advances ²	2	,461.2	1	,600.8		860.4	
Loans to other FHLBanks		0.3		0.1		0.2	

Total interest-bearing liabilities	2	2,907.3	1	,890.4	1	,016.9
Net Interest Income	\$	167.6	\$	128.2	\$	39.4
1 Combined rate/volume variances, a					,	

3,074.9

1,565.0

1,330.7

2.0

9.6

2,018.6

667.1

(1.0)

9.1

1.215.2

1,056.3

897.9

115.5

3.0

0.5

² Interest income/expense and average rates include the interest effect of associated interest rate exchange agreements.

Borrowings. The Bank funds its assets through the use of FHLBank consolidated obligation bonds and discount notes, which are the joint and several obligations of the 12 FHLBanks. These instruments financed 93% and 92% of the Bank's average total assets in 2001 and 2000, respectively. Consolidated obligation bonds are long-term, while discount notes are short-term instruments. The Bank uses interest rate exchange agreements to change the effective interest rate terms on many of its consolidated obligation bonds and discount notes.

Consistent with the decline in the Bank's total assets, total consolidated obligations outstanding decreased 3% in 2001, to \$125.9 billion at December 31, 2001, from \$129.5 billion at December 31, 2000. However, average consolidated obligations in 2001 were

\$129.1 billion, 10% above the \$118.6 billion average in 2000, consistent with the trend for average advances noted above. Consolidated obligations outstanding at December 31, 2001. included fair value adjustments of \$0.9 billion.

To meet the specific needs of certain investors, fixed and adjustable rate consolidated obligation bonds may contain embedded call options or other features that result in complex coupon payment terms. When such consolidated obligation bonds are issued, the Bank simultaneously enters into interest rate exchange agreements with features that offset the complex features of the bonds and, in effect, convert the bonds to conventional adjustable rate instruments tied to an index, such as the London Interbank Offered Rate (LIBOR). During 2001 and 2000, the Bank used fixed rate callable bonds that were usually offset with interest rate exchange agreements with a call feature mirroring the option embedded in the callable bond. This combined structure enabled the Bank to meet its funding needs at costs not generally attainable solely through the issuance of non-callable debt.

Capital and Capital Ratios. Each member is required to purchase Bank stock based on the amount of its residential mortgage loans or its outstanding Bank advances. Average capital during 2001 was \$6.5 billion, an 11% increase from \$5.9 billion in 2000. This increase was due to capital stock purchases by new members and additional capital stock purchases by existing members to support additional borrowings early in the year. This increase was net of redemptions of capital stock, which primarily resulted from the Bank's mandatory surplus capital stock redemption policy. Surplus capital is defined as any excess stock holdings above 115% of a member's statutory capital stock requirement, excluding stock dividends earned and credited for the current year. In accordance with this policy, the Bank redeemed \$363.4 million and \$378.8 million in surplus capital stock during 2001 and 2000, respectively.

The Finance Board's regulations effective through June 30, 2000, prohibited the issuance of consolidated obligations and other unsecured senior liabilities above 20 times the FHLBanks' aggregate total capital. The Finance Board's Financial Management Policy also applied this limit on an FHLBank-by-FHLBank basis. This leverage limitation was temporarily increased to 25 times an FHLBank's total capital through June 30, 2000, provided certain conditions were met, to facilitate Year 2000-related lending. On June 2, 2000, the Finance Board adopted a final rule amending the FHLBanks' leverage limit requirements. Effective July 1, 2000, each FHLBank's leverage limit is based on a ratio of assets to capital, rather than a ratio of liabilities to capital. The final rule generally limits each FHLBank's assets to no more than 21 times capital. However, an FHLBank may have total assets in an amount no greater than 25 times its capital as long as its non-mortgage assets, after deducting deposits and capital, do not exceed 11% of its assets. As of December 31, 2001, the Bank's total assets to capital and non-mortgage assets to total assets ratios were 19.9x and 8.07%, respectively. The Bank's advances and mortgage-related assets averaged 18.4 times capital in 2001. In addition, the Bank's non-mortgage

investments and other non-interest-bearing, non-mortgage assets averaged 2.9 times capital. The Bank's average ratio of total assets to capital was 21.3x in 2001. The 11%-of-assets limit that applies to non-mortgage assets when total assets exceed 21 times capital has not restricted the Bank's ability to maintain the target amount of liquid investments necessary to meet its operating needs and the credit needs of members.

The GLB Act imposes new minimum leverage and risk-based capital requirements on the 12 FHLBanks and requires each FHLBank to implement a new capital structure to replace the current structure. The Bank submitted its proposed capital plan to the Finance Board for approval on October 29, 2001. Until the Bank fully implements its capital plan, the existing capital requirements will remain in effect. See "Recent Developments" on page 30.

Letters of Credit. The Bank issues standby letters of credit on behalf of members to support their obligations to third parties with off-balance sheet risk. The contractual amounts of letters of credit are not recorded as assets or liabilities on the balance sheet. The amounts outstanding as of December 31, 2001 and 2000, were \$841.5 million and \$682.7 million, respectively. The fees earned by the Bank in connection with letters of credit are recorded as other income when received.

Interest Rate Exchange Agreements. The Bank enters into various types of transactions that involve interest rate exchange agreements (interest rate swap, cap, and floor agreements) to adjust the interest rate sensitivity of consolidated obligations to approximate more closely the interest rate sensitivity of assets (both advances and investments) or to adjust the interest rate sensitivity of advances or investments to approximate more closely the interest rate sensitivity of liabilities. In addition, the Bank uses interest rate exchange agreements to manage embedded options in assets and liabilities, to hedge the market value of existing assets and liabilities and anticipated transactions, to hedge the prepayment risk of prepayable instruments, and to reduce funding costs. The Bank also provides a variety of products to meet the specific needs of borrowers. Because the financial characteristics of many of these products may not be consistent with the Bank's desired interest rate risk profile. the Bank uses interest rate exchange agreements to modify the financial characteristics of its products to meet the Bank's specific interest rate risk objectives. These instruments are generally negotiated, with terms tailored to meet the specific needs of the Bank and the customer. The Bank may also act as an intermediary between members and third parties for interest rate exchange agreement transactions.

Interest income and expense from interest rate exchange agreements used for risk management purposes are recorded with interest on the associated instrument whether or not the transactions qualify for hedge accounting treatment under SFAS 133. Interest income and expense from interest rate exchange agreements in which the Bank acts as an intermediary are recorded as other income.

As of December 31, 2001, the notional amount of the Bank's interest rate exchange agreements, primarily interest rate swaps, was \$144.7 billion. Of this amount, \$98.6 billion was associated with consolidated obligations, \$44.8 billion was associated with advances, \$0.5 billion was associated with MBS, and \$0.8 billion was associated with intermediated transactions. As of December 31, 2000, the notional amount of the Bank's interest rate exchange agreements, primarily interest rate swaps, was \$156.9 billion. Of this amount, \$109.2 billion was associated with consolidated obligations, \$45.9 billion was associated with advances, \$0.7 billion was associated with MBS, and \$1.1 billion was associated with intermediated transactions.

On January 1, 2001, the Bank adopted SFAS 133, which requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The gains and losses on derivative instruments that are designated as cash flow hedges are reported in other comprehensive income and will be recognized as earnings in the periods in which earnings are affected by the cash flows of the hedged items. The ineffective portion of all hedges is recognized in current period earnings.

In anticipation of SFAS 133, in 1999 and 1998 the Bank terminated certain interest rate exchange agreements that were hedging existing and anticipated future issuances of discount notes. The Bank realized losses of \$32.3 million and \$13.3 million in 1999 and 1998, respectively, on these terminations. Under SFAS 133, the Bank would have been required to mark these agreements to market on January 1, 2001, and periodically thereafter. The amount of the resulting gains and losses to be recorded in other comprehensive income would have varied depending on interest rates. The Bank eliminated this accounting uncertainty by terminating the agreements and replacing them, in part, with certain fixed rate bonds, which will not have accounting volatility under SFAS 133. Because the future issuance of discount notes remains probable, the Bank deferred these losses and was amortizing them into interest expense over the remaining terms of the original interest rate swap agreements. The unamortized amount of these deferred hedging losses at December 31, 2000, was \$17.1 million and was included in the carrying amount of discount notes.

In accordance with the transition provisions of SFAS 133, the Bank recognized in other comprehensive income the remaining unamortized balance of these deferred hedging losses, \$17.1 million, as part of the cumulative effect of adopting SFAS 133 on January 1, 2001. Previously, the Bank had retained \$17.1 million in restricted retained earnings to offset the effect of these deferred losses on capital. During 2001, \$12.2 million of the deferred hedging losses was recognized in interest expense, and the Bank transferred \$12.2 million to unrestricted retained earnings to offset the amortization of the deferred hedging losses.

The unamortized amount of these losses at December 31, 2001, was \$4.8 million and was included in accumulated other comprehensive loss.

In addition, a loss of \$2.5 million was charged to January 2001 earnings as part of the cumulative effect of adopting SFAS 133. This loss reflected unrealized gains of \$7.1 million related to the transfer of held-to-maturity securities to held-at-fair-value securities and unrealized net losses of \$9.6 million from the remaining cumulative effect of adjustments related to fair value hedges and transactions not meeting the requirements for fair value or cash flow hedges under SFAS 133.

The ongoing impact of SFAS 133 on the Bank cannot be predicted, and the Bank's retained earnings in the future may not be sufficient to offset the impact of SFAS 133. As a result, the effects of SFAS 133 may lead to increased volatility in future earnings and dividends.

RISK MANAGEMENT

Liquidity. The Bank is required to maintain liquidity in accordance with certain regulations, with the Finance Board's Financial Management Policy, and with the Bank's own liquidity policy. The Bank needs liquidity to satisfy member demand for short- and long-term funds, repay maturing consolidated obligations, and meet other obligations. In their asset/liability management planning, members may look to the Bank to provide standby liquidity. The Bank seeks to be in a position to meet its customers' credit and liquidity needs without maintaining excessive holdings of low-yielding liquid investments or being forced to incur unnecessarily high borrowing costs. The Bank's primary sources of liquidity are short-term investments and the issuance of new consolidated obligation bonds and discount notes. Other shortterm borrowings, such as Federal funds purchased, securities sold under agreements to repurchase, and loans from other FHLBanks, also provide liquidity. The Bank maintains contingency liquidity plans designed to enable it to meet its obligations and the liquidity needs of members in the event of operational disruptions at the Bank or the Office of Finance (the FHLBanks' fiscal agent for issuing consolidated obligations) or short-term capital market disruptions.

Interest Rate Risk. Underlying the Bank's financial performance is a multifaceted asset/liability management strategy. The Bank monitors and evaluates the potential effects of interest rate movements on earnings and the market value of equity. Asset/liability strategies are adjusted to manage interest rate risk within prescribed policy limits and guidelines. The Bank's financial policies and guidelines establish limits for net interest income sensitivity to interest rate changes, interest rate index basis relationship changes, periodic and cumulative repricing gaps, and the sensitivity of the market value of equity to interest rate changes (duration of equity). The Bank also complies with the duration of equity limits and other limits set forth in the Finance Board's Financial Management Policy.

One measure of interest rate risk is the extent to which the interest rates on the Bank's assets and liabilities reprice at different

times. The following table shows the interest rate sensitivity of assets and liabilities by repricing periods. The periodic gaps shown in this table represent the net difference between total asset and liability repricings, including the impact of interest rate exchange agreements, for a specified time period. For example, the periodic gap for the "6 months or less" time period indicates that as of December 31, 2001, there were \$3.3 billion more assets than liabilities repricing during the 6-month period beginning on December 31, 2001. As shown in this table, the Bank's repricing gaps, by design, are concentrated in the "6 months or less" category, and, to a lesser degree, the "1 to 5 years" category.

INTEREST RATE SENSITIVITY

For the Year Ended December 31, 2001

	INTEREST RATE SENSITIVITY PERIOD			
	6 MONTHS	6 MONTHS	1 TO	OVER
(IN MILLIONS)	OR LESS	TO 1 YEAR	5 YEARS	5 YEARS
Assets				
Investments	\$22,825	\$ 1,529	\$ 5,041	\$2,784
Advances	62,910	11,312	25,479	2,554
Other assets	922	_	_	_
Total Assets	\$86,657	\$12,841	\$30,520	\$5,338
Liabilities				
Consolidated obligations	\$61,229	\$15,019	\$44,221	\$5,471
Deposits	751	_	_	_
Other borrowings	200	_	_	_
Other liabilities	1,453	_		202
Total Liabilities	\$63,633	\$15,019	\$44,221	\$5,673
Interest Rate				
Exchange Agreements	(19,694)	3,061	15,324	1,309
Periodic Gap/Invested Capital	\$ 3,330	\$ 883	\$ 1,623	\$ 974

The following table shows the estimated percentage change in the market value of equity (the net value of all assets, liabilities, and off-balance sheet items) that would result from a 100-basispoint change in interest rates under different interest rate scenarios. At December 31, 2001, the estimated percentage change in the Bank's market value of equity was 2.0%. If interest rates rose 100 basis points, the Bank's market value of equity would be expected to decline approximately 2.0%, and if interest rates fell 100 basis points, the Bank's market value of equity would be expected to increase approximately 2.0%. If interest rates had been 200 basis points higher at December 31, 2001, a 100-basis-point additional shift in interest rates would be expected to either decrease or increase (depending on the direction of the interest rate movement) the Bank's market value of equity by approximately 2.6%. If interest rates had been 200 basis points lower at December 31, 2001, a 100-basis-point additional shift in interest rates would be expected to alter the Bank's market value of equity by approximately 0.9%.

MARKET VALUE OF EQUITY SENSITIVITY

As of December 31, 2001	AVERAGE PER	CENTAGE CHANGE
	IN THE MARKET	VALUE OF EQUITY
INTEREST RATE SCENARIO	PER 100-BASIS-POINT CHANGE I	N INTEREST RATES
Actual rates at December 31 Rates start 200 basis points Rates start 200 basis points	higher	2.0% 2.6% 0.9%

Credit Risk. The Bank closely monitors the creditworthiness of the institutions to which it lends funds. The Bank also places great importance on the quality of the assets that are pledged as collateral by its customers. The Bank emphasizes credit monitoring and collateral asset review and valuation to manage the credit risk associated with its lending activities. It also has procedures to assess the mortgage underwriting and documentation standards of its borrowing members. In addition, the Bank has collateral policies and restricted lending procedures in place to manage its exposure to those customers that experience difficulty in meeting their capital requirements or other standards of creditworthiness. The Bank has not experienced any losses on credit extended to any member or other counterparty since its inception. Based on the collateral held as security and prior repayment history, no allowance for losses is deemed necessary by management.

The Bank has adopted exposure limits for investments that ensure diversification and liquidity. These policies restrict the amounts and terms of the Bank's investment holdings according to the Bank's own capital position as well as the capital and creditworthiness of the counterparty. In addition, the Bank's investments include AAA-rated non-agency MBS; MBS that are guaranteed by government-sponsored enterprises (Fannie Mae, Freddie Mac, and Ginnie Mae); and housing finance agency bonds, which are AAA-rated mortgage revenue bonds (federally taxable) that are collateralized by pools of residential mortgages.

The Bank has also adopted credit policies and exposure limits for derivatives and off-balance sheet credit exposure. Under these policies, the amount of unsecured credit that may be extended to an individual counterparty is the lower of (1) an amount commensurate with the counterparty's capital and its credit quality, as determined by rating agency credit ratings of the counterparty's debt securities or deposits, or (2) an absolute credit exposure limit. In addition, the Bank has entered into master netting arrangements and bilateral security agreements with all active non-member derivative counterparties that provide for delivery of collateral at specified levels to limit net credit exposure from these derivatives. (See "Recent Developments" on this page for a discussion of the Finance Board's new rule on unsecured credit limits.)

Concentration Risk. At December 31, 2001, the Bank had a concentration of advances totaling \$79.0 billion outstanding to three members, representing 78% of total advances outstanding (45%, 22%, and 11%, respectively). At December 31, 2000, the Bank had a concentration of advances totaling \$89.2 billion outstanding to three members, representing 81% of total advances outstanding (44%, 24%, and 13%, respectively). Of the total capital stock outstanding at December 31, 2001, three members held 49.5 million shares, representing 74% of total capital stock outstanding (41%, 22%, and 11%, respectively). At December 31, 2000, three members held 48.3 million shares,

representing 77% of total capital stock outstanding (42%, 22%, and 13%, respectively). The Bank manages concentration risk by, among other things, closely monitoring the credit and collateral quality and financial trends of the institutions to which it lends funds, charging market-based prepayment fees on most advances, and monitoring and managing the risks associated with any potential departure of a large member and the resulting capital redemption.

RECENT DEVELOPMENTS

Capital Requirements for FHLBanks. On January 30, 2001, the Finance Board published a final rule to implement a new capital structure for the FHLBanks, as required by the GLB Act. The rule established risk-based and leverage capital requirements for the FHLBanks, addressed different classes of stock that an FHLBank may issue and the rights and preferences that may be associated with each class of stock, and required each FHLBank to submit a capital plan to the Finance Board for approval. The Bank submitted its proposed capital plan to the Finance Board on October 29, 2001. The Finance Board has announced its intention to consider the Bank's proposed capital plan at its meeting on June 12, 2002; however, there is no assurance that the capital plan will be approved on that date. The Bank intends to implement its capital plan through an exchange of stock and will provide all members with a description of the capital plan and other pertinent information after receiving approval of its capital plan from the Finance Board. Until the Bank fully implements its new capital plan, the current requirements for Bank capital stock remain in effect.

Unsecured Credit Limits. In December 2001, the Finance Board amended its rules governing the amount of unsecured credit that an FHLBank may extend to a particular counterparty. The amendments require an FHLBank to base the credit limit on the long-term credit rating of the counterparty, set the amount of unsecured credit that may be extended to a governmentsponsored enterprise at the level allowed under an FHLBank's Financial Management Policy, adjust the limits for sales of overnight Federal funds and limits for unsecured credit extended to groups of affiliated counterparties, address how unsecured credit limits should be applied to certain housing finance agency bonds, and clarify how an FHLBank should calculate its credit exposures from on- and off-balance sheet items and derivative contracts. The amendments become effective March 27, 2002. The Bank does not anticipate that the changes will have significant effects on its investment and hedging activities or on the profits or costs associated with those activities.

Multiple Federal Home Loan Bank Memberships. In October 2001, the Finance Board published a solicitation of comments on the implications for the FHLBank System raised by the structural changes that have been occurring in its membership base. The solicitation was prompted by the submission of petitions requesting that the Finance Board permit a single depository institution to become a member of two FHLBanks concurrently.

New Business Activity. In February 2001, the Finance Board consented to the Bank's participation in the Mortgage Partnership Finance® Program, a mortgage loan purchase program administered by the Federal Home Loan Bank of Chicago. The Bank began offering the MPF® Program to its members in 2001 and expects to begin purchasing loans in 2002. ("Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago.)

COMPARISON OF 2000 TO 1999

Net income was \$376.6 million in 2000, compared to \$332.6 million in 1999. Net interest income increased to \$554.6 million in 2000 from \$387.0 million in 1999 as a result of a 34% increase in average interest-earning assets outstanding during the year and a 3-basis-point increase in the net interest margin. The increase in the net interest margin was primarily due to significant growth in advances, investments, and capital, combined with higher interest rates earned on invested capital and higher advance profit spreads.

Other income was \$5.3 million in 2000 and \$20.0 million in 1999. The Bank collected \$0.4 million in prepayment fees in 2000, compared to \$2.1 million in 1999, although more advances were prepaid in 2000. During 1999, the Bank recognized one-time gains of \$10.5 million from the spin-off/termination involving the Bank's cash balance plan and \$3.6 million from the sale of the Bank's building.

Other expenses increased to \$48.7 million in 2000 from \$44.1 million in 1999, primarily as a result of a \$4.0 million increase in operating expenses. While operating expenses increased 10% in 2000, average assets increased 34%, leading to a decline in the Bank's ratio of operating expenses to average assets from 4.0 basis points in 1999 to 3.3 basis points in 2000.

The Bank's total REFCORP and AHP assessments equaled \$136.0 million in 2000 and \$79.4 million in 1999. These amounts reflected effective "tax" rates on income of 27% and 22%, respectively. Effective January 1, 2000, the FHLBanks' annual REFCORP obligation was modified by the GLB Act from a fixed annual assessment of \$300 million for the 12 FHLBanks combined to 20% of each FHLBank's net earnings (after AHP assessments). As a result of this change and higher earnings in 2000, the Bank's REFCORP assessment increased \$46.4 million, to \$94.1 million in 2000 from \$47.7 million in 1999. In accordance with the GLB Act, the REFCORP assessment for 2000 was classified as an expense and included on the Bank's income statement, while the REFCORP assessment for 1999 and prior years was a charge to capital and did not appear on the income statement. The Bank set aside \$41.9 million for the AHP in 2000, compared to \$31.7 million in 1999. The increase in the AHP assessment reflected higher earnings in 2000.

Adjusted net interest income increased 42%, to \$560.5 million in 2000 from \$394.0 million in 1999. This increase was the primary reason adjusted net income rose 13%, to \$381.4 million in 2000 from \$337.1 million in 1999.

In 2000, the Bank paid a total of \$416.3 million in dividends, an average annual rate of 7.17%. The 2000 dividends included \$36.9 million in payouts from retained earnings, which added 0.63% to the annual dividend yield. Without the payments, the Bank's dividend for 2000 would have been 6.54%, 118 basis points higher than in 1999, when dividends totaled \$254.5 million and the average annual rate was 5.36%. All dividends except fractional shares were paid in the form of capital stock.

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management report on responsibility for financial reporting

FINANCIAL STATEMENTS

The management of the Federal Home Loan Bank of San Francisco (Bank) prepared the financial statements contained in the Annual Report in accordance with generally accepted accounting principles. Management has primary responsibility for the integrity and objectivity of the financial statements, which include amounts that are based on management's best estimates and judgments. Other information in the Annual Report is consistent with that contained in the financial statements.

The Bank's financial statements have been audited by Price-waterhouseCoopers LLP, independent accountants approved by the Federal Housing Finance Board. Management has made available to PricewaterhouseCoopers LLP all the Bank's financial records and related data, as well as the minutes of the meetings of the Bank's Board of Directors. The report of the independent accountants expresses an opinion as to the fairness of the financial position and results of operations of the Bank based on their audit conducted in accordance with generally accepted auditing standards.

INTERNAL CONTROL SYSTEMS

In meeting its responsibility for the integrity and objectivity of the financial statements, management of the Bank has established and relies upon a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The system of internal controls provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process. Management monitors the system of internal controls for compliance, adequacy, and cost-effectiveness. Management believes that as of December 31, 2001, the Bank's system of internal controls was adequate to accomplish the objectives discussed herein.

The Bank maintains an internal auditing program and the Federal Housing Finance Board performs an examination function that independently assess the effectiveness of the Bank's internal controls and recommend possible improvements thereto. Corrective actions are taken to address control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors is composed of independent directors and oversees the Bank's financial reporting and system of internal controls. In addition to meeting regularly with the Bank's management, the Committee met with the Bank's Director of Internal Audit, Federal Housing Finance Board examiners, and independent accountants, without management present, to discuss the results of their audits, their evaluations of the system of internal controls, and the overall quality of the Bank's financial reporting.

There are inherent limitations in the effectiveness of any system of internal controls, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Bank assesses its internal control system in relation to, among other things, criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, the Bank believes that, as of December 31, 2001, its system of internal controls over financial reporting met those criteria.

CODE OF CONDUCT

Management also recognizes its responsibility for fostering a strong ethical climate so that the Bank's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in the Bank's code of corporate conduct, which is communicated to employees.

Dean Schultz

President and Chief Executive Officer

Steven I. Honda

Clean Sh

Steven T. Honda

Senior Vice President and Chief Financial Officer

Vera Maytum

Senior Vice President and Controller

Vera Maytum

February 19, 2002

audit committee report

The Audit Committee of the Board of Directors of the Federal Home Loan Bank of San Francisco (Bank) for 2002 is currently composed of six Directors, one of whom was appointed to the Board by the Federal Housing Finance Board and five of whom were elected to the Board by the members of the Bank. The Finance Board is expected to appoint three additional members to the Board of Directors, and two of those appointed members will also be appointed to serve on the Audit Committee.

The Audit Committee oversees the Bank's financial reporting process; reviews the programs and policies of the Bank designed to ensure compliance with applicable laws, regulations, and policies and monitors the results of these compliance efforts; and advises and assists the Board in fulfilling its oversight responsibilities relating to risk management, internal controls, the accounting policies and financial reporting and disclosure practices of the Bank, and the audit and examination of the Bank.

The Audit Committee has reviewed and discussed the audited financial statements with management. The Committee has discussed with the independent auditor the matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, Communications with Audit Committees, and SAS No. 90, Audit Committee Communications. The Committee has

also received the written disclosures and the letter from the independent auditor required by Independent Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and has discussed the auditor's independence with the auditor.

Based on the review and discussions referred to above, the Audit Committee recommends to the Board of Directors that the financial statements be included in the Annual Report.

Craig G. Blunden, Chair

Robert N. Barone

Kenneth R. Harder

Rick McGill

Richard H. Terzian

Mary Lee Widener

February 19, 2002

report of independent accountants

To the Board of Directors and Shareholders of the Federal Home Loan Bank of San Francisco:

In our opinion, the accompanying statements of condition and the related statements of income, capital, and cash flows present fairly, in all material respects, the financial position of the Federal Home Loan Bank of San Francisco (Bank) at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 1, the Bank changed its method of accounting for REFCORP payments during the year ended December 31, 2000. For the years ended December 31, 2001 and 2000, the REFCORP payments have been recorded as an expense in the statements of income. During the year ended December 31, 1999, REFCORP payments were recorded as deductions from capital. As discussed in Note 2, the Bank adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by Statement of Financial Accounting Standards No. 138, on January 1, 2001.

San Francisco, California

Pricevalerbase Coopers LLP

February 19, 2002

statements of condition

(IN THOUSANDS-EXCEPT PAR VALUE)	2001	DECEMBER 31,
ASSETS	2001	
Cash and due from banks	\$ 1,889	\$ 4,584
Interest-bearing deposits in banks	4,487,000	2,698,000
Securities purchased under agreements to resell	2,150,000	400,000
Federal funds sold	8,445,000	8,376,000
Held-to-maturity securities (\$1,222,976 and \$360,636, respectively, were		
pledged as collateral)	16,543,889	15,524,693
Held-at-fair-value securities (\$226,461 was pledged as collateral)	527,870	_
Advances	102,254,552	110,031,641
Loans to other Federal Home Loan Banks	25,000	_
Accrued interest receivable	418,606	3,136,776
Premises and equipment, net	5,529	4,326
Derivative assets	479,860	_
Other assets	16,543	13,988
Total Assets	\$135,355,738	\$140,190,008
LIABILITIES AND CAPITAL Liabilities:		
Deposits:		
Demand and overnight	\$ 715,617	\$ 347,613
Term	36,000	28,800
Total deposits	751,617	376,413
Other borrowings	200,000	_
Consolidated obligations, net:		
Bonds	104,657,132	97,365,608
Discount notes	21,282,619	32,097,431
Total consolidated obligations	125,939,751	129,463,039
Accrued interest payable	1,080,127	3,888,254
Affordable Housing Program	127,038	109,630
Payable to REFCORP	36,875	25,315
Derivative liabilities	372,812	_
Other liabilities	38,054	35,212
Total Liabilities	128,546,274	133,897,863
Commitments and Contingencies: Note 16		
Capital:		
Capital stock (\$100 par value) issued and outstanding shares:		
67,519 shares in 2001 and 62,679 shares in 2000	6,751,941	6,267,859
Retained earnings	62,269	24,286
Accumulated other comprehensive loss:	02,209	24,200
Unrecognized net loss related to hedging activities	(4,746)	
		6 000 145
Total Capital	6,809,464	6,292,145
Total Liabilities and Capital	\$135,355,738	\$140,190,008

FOR THE YEARS ENDED DECEMBER 31,

(IN THOUSANDS)	2001	2000	1999
INTEREST INCOME:			
Advances	\$4,735,896	\$6,431,349	\$3,970,075
Interest-bearing deposits in banks	142,429	131,077	68,466
Securities purchased under agreements to resell	63,861	93,891	110,954
Federal funds sold	349,341	549,093	354,522
Held-to-maturity securities	828,862	898,047	524,809
Held-at-fair-value securities	27,704	_	_
Loans to other Federal Home Loan Banks	843	662	400
Total Interest Income	6,148,936	8,104,119	5,029,226
INTEREST EXPENSE:			
Consolidated obligations	5,578,339	7,523,902	4,628,253
Deposits	15,994	13,514	11,552
Securities sold under agreements to repurchase	_	11,887	2,046
Borrowings from other Federal Home Loan Banks	78	82	72
Other borrowings	218	161	347
Total Interest Expense	5,594,629	7,549,546	4,642,270
NET INTEREST INCOME	554,307	554,573	386,956
OTHER INCOME:			
Prepayment fees	5,953	392	2,099
Services to members	904	899	852
Gain on the spin-off/termination involving the Bank's Cash Balance Plan	_	_	10,507
Net gain on held-at-fair-value securities	7,653	_	_
Net gain on derivatives and hedging activities	63,951	_	_
Other, net	3,616	4,020	6,587
Total Other Income	82,077	5,311	20,045
OTHER EXPENSE:			
Operating expense	48,803	42,818	38,832
Federal Housing Finance Board and Office of Finance expenses	6,660	5,833	5,311
Total Other Expense	55,463	48,651	44,143
INCOME BEFORE ASSESSMENTS, EXTRAORDINARY ITEMS,			
AND CUMULATIVE EFFECT OF ADOPTING SFAS 133	580,921	511,233	362,858
REFCORP assessments	106,147	94,147	_
Affordable Housing Program assessments	47,177	41,843	31,651
Total Assessments	153,324	135,990	31,651
INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE			
EFFECT OF ADOPTING SFAS 133	427,597	375,243	331,207
Extraordinary (losses)/gains on early retirement of debt	(555)	1,346	1,346
Cumulative effect of adopting SFAS 133	(2,453)		
Net Income	\$ 424,589	\$ 376,589	\$ 332,553

statements of capital accounts

	CAPI	TAL STOCK	RE	TAINED EARNINGS		ACCUMULATED OTHER COMPREHENSIVE	TOTAL
(IN THOUSANDS)	SHARES	PAR VALUE	RESTRICTED	UNRESTRICTED	TOTAL	INCOME/(LOSS)	CAPITAL
Balance, December 31, 1998	44,016	\$4,401,591	\$30,654	\$ 3,057	\$ 33,711	\$ - \$	4,435,302
Issuance of capital stock	12,938	1,293,784					1,293,784
Redemption of capital stock	(5,755)	(575,494)					(575,494)
Net income				332,553	332,553		332,553
Transfers to restricted retained earnings			7,978	(7,978)	_		_
Dividends on capital stock (5.36%)							
Cash payment				(52)	(52)		(52)
Stock issued	2,545	254,478		(254,478)	(254,478)		_
Capital distribution to REFCORP				(47,694)	(47,694)		(47,694)
Balance, December 31, 1999	53,744	5,374,359	38,632	25,408	64,040	_	5,438,399
Issuance of capital stock	9,763	976,356					976,356
Redemption of capital stock	(4,991)	(499,141)					(499,141)
Net income				376,589	376,589		376,589
Transfers from restricted retained earnings			(14,453)	14,453	_		_
Dividends on capital stock (7.17%)							
Cash payment				(58)	(58)		(58)
Stock issued	4,163	416,285		(416,285)	(416,285)		
Balance, December 31, 2000	62,679	6,267,859	24,179	107	24,286	_	6,292,145
Issuance of capital stock	6,655	665,502					665,502
Redemption of capital stock	(5,680)	(567,965)					(567,965)
Comprehensive income:							
Net income				424,589	424,589		424,589
Other comprehensive income:							
Cumulative effect of adopting SFAS	3 133					(17,065)	(17,065)
Net amounts recognized as earning	gs					12,217	12,217
Net change in period relating to							
hedging activities						102	102
Total comprehensive income							419,843
Transfers to restricted retained earnings			38,015	(38,015)	_		_
Dividends on capital stock (5.99%)							
Cash payment				(61)	(61)		(61)
Stock issued	3,865	386,545		(386,545)	(386,545)		
Balance, December 31, 2001	67,519	\$6,751,941	\$62,194	\$ 75	\$ 62,269	\$(4,746) \$	6,809,464

FOR THE YEARS ENDED DECEMBER 31,

(IN THOUSANDS)	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 424,589	\$ 376,589	\$ 332,553
Extraordinary losses/(gains) on early retirement of debt	555	(1,346)	(1,346)
Cumulative effect of adopting SFAS 133	2,453	_	
Income before extraordinary items and cumulative effect of adopting SFAS 133	427,597	375,243	331,207
Adjustments to reconcile net income before extraordinary items and cumulative effect of adopting SFAS 133 to net cash provided by operating activities:			
Depreciation and amortization:			
Net discounts on consolidated obligations and investments	(77,561)	(252,512)	(130,137)
Concessions on consolidated obligations	50,326	14,032	7,949
Bank premises and equipment	1,602	1,163	2,203
Deferred net losses on interest rate exchange agreements	9,712	13,830	13,255
Affordable Housing Program (AHP) liability and discount on AHP advances	17,260	18,493	9,956
Increase in REFCORP liability	11,560	14,131	_
Gain on sale of building	_	_	(3,572)
Gain on spin-off/termination of Cash Balance Plan	_	_	(10,507)
Gain on non-monetary transfer of advances	_	(443)	_
Gain due to change in net fair value adjustment on derivative and hedging activities	(45,527)	_	_
Increase in securities held at fair value, net of transfers and transition adjustments	(7,653)	_	_
Increase in derivative asset accrued interest	(231,041)	_	_
Decrease in derivative liability accrued interest	143,690	_	_
Decrease/(increase) in accrued interest receivable	2,718,170	(1,037,154)	(577,640)
(Decrease)/increase in accrued interest payable	(2,808,127)	1,281,713	786,821
(Increase)/decrease in other assets	(2,555)	(54)	26,290
Increase/(decrease) in other liabilities	2,287	915	(5,288)
Total adjustments	(217,857)	54,114	119,330
Net cash provided by operating activities	209,740	429,357	450,537
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net increase in interest-bearing deposits in banks	(1,789,000)	(996,000)	(1,300,000)
Net (increase)/decrease in Federal funds sold	(69,000)	260,000	(3,742,000)
Net (increase)/decrease in securities purchased under agreements to resell	(1,750,000)	2,158,885	(332,260)
Net decrease/(increase) in short-term investments held to maturity	1,593,196	(1,129,643)	(867,413)
Purchases of mortgage-backed securities	(7,907,250)	(5,555,607)	(3,000,359)
Maturities of mortgage-backed securities	4,922,365	1,843,641	1,613,926
Principal collected on advances	343,437,997	316,900,500	195,964,633
Advances made to members	(334,746,482)	(336,419,740)	(222,489,710)
Net increase in loans to other FHLBanks	(25,000)	_	_
Proceeds from sale of building	_	_	92,661
Net increase to premises and equipment	(2,805)	(1,165)	(1,840)
Net cash provided by/(used for) investing activities	3,664,021	(22,939,129)	(34,062,362)

FOR THE YEARS ENDED DECEMBER 31,

(IN THOUSANDS)		2001		2000		1999
CASH FLOWS FROM FINANCING ACTIVITIES:						
Net increase/(decrease) in deposits		375,204		49,460		(151,262)
Net decrease in securities sold under agreements to repurchase		_		_		(150,000)
Net decrease in loans from other FHLBanks		_		_		(150,000)
Net increase/(decrease) in other borrowings		200,000		_		(6,111)
Net proceeds from sale of consolidated obligations:						
Bonds		92,897,300		54,749,561		50,945,749
Discount notes		196,443,370	2	252,743,176		159,964,172
Payments for maturing and retiring consolidated obligations:						
Bonds		(86,605,000)		(34,165,950)		(36,689,650)
Discount notes	(207,284,806)	(2	251,340,472)	(140,822,323)
Proceeds from issuance of capital stock		665,502		976,356		1,293,784
Payments for redemption of capital stock		(567,965)		(499,141)		(575,494)
Cash dividends paid		(61)		(58)		(52)
Capital distribution to REFCORP	_					(48,271)
Net cash (used for)/provided by financing activities	_	(3,876,456)		22,512,932		33,610,542
Net (decrease)/increase in cash and cash equivalents		(2,695)		3,160		(1,283)
Cash and cash equivalents at beginning of year	_	4,584		1,424		2,707
Cash and cash equivalents at end of year	\$	1,889	\$	4,584	\$	1,424
SUPPLEMENTAL DISCLOSURES:						
Interest paid during the year	\$	7,134,631	\$	6,197,314	\$	3,810,217
Stock dividends issued during the year	\$	386,545	\$	416,285	\$	254,478
Non-monetary transfer of advances	\$	_	\$	180,000	\$	_

YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999 (DOLLARS IN THOUSANDS)

BACKGROUND INFORMATION

The Federal Home Loan Bank of San Francisco (Bank), a federally chartered corporation exempt from all federal, state, and local taxation except for real property taxes, is one of 12 District Federal Home Loan Banks (FHLBanks). The Bank is the largest of the 12 FHLBanks, and its assets and capital are each approximately one-fifth of the combined assets and combined capital of the 12 FHLBanks as of December 31, 2001. The FHLBanks serve the public by enhancing the availability of credit for residential mortgages and targeted community development by providing a readily available, low-cost source of funds to their member institutions. The Bank is a cooperative whose member institutions own the capital stock of the Bank and receive dividends on their investments. Regulated financial depositories, including "community financial institutions," and insurance companies engaged in residential housing finance are eligible to apply for membership. Community financial institutions are defined as FDIC-insured depository institutions with average total assets over the preceding three-year period of less than \$517 million for 2001 (to be adjusted each year by the annual percentage increase in the Consumer Price Index). All members are required to purchase stock in the Bank.

The Federal Housing Finance Board (Finance Board), an independent federal agency in the executive branch of the United States Government, supervises and regulates the FHLBanks. The Finance Board ensures that the FHLBanks operate in a safe and sound manner, carry out their housing finance mission, remain adequately capitalized, and can raise funds in the capital markets. Also, the Finance Board establishes policies and regulations governing the operations of the FHLBanks. Each FHLBank is operated as a separate entity with its own management, employees, and board of directors.

A primary source of funds for the FHLBanks is the proceeds from the sale to the public of the FHLBanks' debt instruments (consolidated obligations), which are the joint and several obligations of all FHLBanks. Other funds are provided by deposits, other borrowings, and the issuance of capital stock. All stock is owned by the FHLBanks' members.

In accordance with the Finance Board's regulations, the Bank has established a formal policy governing the compensation and expense reimbursement provided to its directors. Directors are compensated based on the level of responsibility assumed. Fees are paid for attendance at certain meetings. Directors are also reimbursed for reasonable and necessary Bank-related travel, subsistence, and other related expenses under a policy similar to the Bank's travel policy for employees. During 2001, meeting fees totaled \$233 and reimbursed travel and related expenses totaled \$112.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

Investments. Held-to-maturity securities and securities purchased under agreements to resell (resale agreements) are carried at cost, adjusted for the amortization of premiums and accretion of discounts using methods that approximate the level-yield method. These investments are classified as heldto-maturity securities because management has the positive intent and ability to hold these securities until maturity. As more fully discussed in Note 2, on January 1, 2001, the Bank transferred certain held-to-maturity securities to "trading" ("held-at-fair-value securities" for the Bank's purposes) as allowed under the transition provisions contained in Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133, and as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities (together referred to as "SFAS 133"). Held-at-fair-value securities are carried at fair value based on quoted prices, market rates, or replacement rates for similar financial instruments. Purchases of securities under agreements to resell the same securities are recorded as collateralized investments. Sales of securities under agreements to repurchase the same or substantially the same securities are treated as financings.

Advances. The Bank presents advances, net of unearned fees and discounts on advances for the Affordable Housing Program (AHP), as discussed below. In addition, prior to the adoption of SFAS 133 in 2001, the Bank adjusted the carrying value of advances for the unamortized balance of deferred net gains and losses from associated interest rate exchange agreements. Interest on advances is credited to income as earned. Following the requirements of the Federal Home Loan Bank Act of 1932, as amended (FHLB Act), the Bank obtains sufficient collateral for advances to protect the Bank from losses. The FHLB Act limits eligible collateral to secure advances to certain investment securities, residential mortgage loans, deposits with the Bank, and other selected real estate-related assets. As more fully discussed in Note 7, the Bank may also accept secured small business, small farm, and small agribusiness loans as collateral from members that are community financial institutions. The Bank has never experienced any losses on advances. Based on the collateral held as security for advances, management's credit analyses, and prior repayment history, no allowance for losses on advances is deemed necessary by management.

Affordable Housing Program. As more fully discussed in Note 8, the FHLB Act requires each FHLBank to establish and fund an AHP. The Bank charges the required funding to earnings and establishes an offsetting liability. AHP funds provide direct subsidies to members to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. Advances that qualify under the Bank's AHP are made at interest rates below the customary interest rate for non-subsidized advances. When an AHP advance is made, the net present value of the difference in the cash flows attributable to the difference between the interest rate of the AHP advance and the FHLBanks' related cost of funds for comparable maturity funding is charged against the AHP liability and recorded as a discount on the AHP advance.

Prepayment Fees. The Bank charges its members a prepayment fee when certain advances are paid prior to original maturity. Such fees are credited to income when received. Prior to January 1, 2001, gains and losses on terminated or redesignated interest rate exchange agreements associated with advances that had been prepaid were netted with prepayment fees in the Statements of Income. As of January 1, 2001, the resulting gains and losses were recognized in accordance with SFAS 133 (see Note 2).

Other Fees. Other fees for advances are deferred and amortized to interest income using the straight-line method. The Bank defers refundable fees until the commitment expires or until the advance is funded if material. Issuance fees for letters of credit are recorded as other income when received.

Derivatives. All derivatives are recognized on the balance sheet at their fair value and those not used for intermediary purposes are designated as (1) a hedge of the fair value of (a) a recognized asset or liability or (b) an unrecognized firm commitment (a "fair value" hedge); (2) a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge); or (3) a non-SFAS 133-qualifying hedge of an asset or liability (an "economic" hedge) for asset-liability management purposes. Changes in the fair value of a derivative that is effective as and is designated and qualifies as a fair value hedge. along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (including changes that reflect losses or gains on firm commitments), are recorded in current period earnings. Changes in the fair value of a derivative that is effective as and is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, a component of capital, until earnings are affected by the variability of the cash flows of the hedged transaction (i.e., until periodic settlements of a variable rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the change in the fair value of the derivative differs from the change in the fair value of the hedged item or the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. Changes in the fair value of a standalone derivative designated as an economic hedge are recorded in current period earnings with no fair value adjustment to an

asset or liability. Hedge ineffectiveness and changes in the fair value of stand-alone derivatives are recorded in other income as "Net gain on derivatives and hedging activities."

The Bank occasionally purchases financial instruments in which a derivative instrument is "embedded" and that are not remeasured at fair value with changes in fair value reported in earnings as they occur. Upon purchasing the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (the host contract) and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative has economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and designated as a stand-alone derivative instrument pursuant to an economic hedge. However, if the entire contract (the host contract and the embedded derivative) is to be measured at fair value, with changes in fair value reported in current earnings (such as an investment security classified as "trading" under SFAS No. 115. Accounting for Certain Investments in Debt and Equity Securities), or if the Bank cannot reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract is carried on the balance sheet at fair value and no portion of the contract is designated as a hedging instrument.

The Bank documents all relationships between derivative hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions and its method of assessing effectiveness. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) assets and liabilities on the balance sheet. (2) firm commitments, or (3) forecasted transactions. The Bank also formally assesses (both at the hedge's inception and at least quarterly on an ongoing basis) whether the derivatives that are used in hedging transactions have been effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain effective in future periods. The Bank typically uses regression analyses or other statistical analyses to assess the effectiveness of its hedges. When it is determined that a derivative has not been or is not expected to be effective as a hedge, the Bank discontinues hedge accounting prospectively.

The Bank discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in off-setting changes in the fair value or cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative and/or the hedged item expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur in the originally expected period; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines

that designating the derivative as a hedging instrument in accordance with SFAS 133 is no longer appropriate.

When hedge accounting is discontinued because the Bank determines that the derivative no longer qualifies as an effective fair value hedge, the Bank will continue to carry the derivative on the balance sheet at its fair value, cease to adjust the hedged asset or liability for changes in fair value, and begin amortizing the cumulative basis adjustment on the hedged item into earnings over the remaining life of the hedged item. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Bank will continue to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that was recorded to recognize the firm commitment and recording it as a gain or loss in current period earnings. When the Bank discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is recognized as earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within two months thereafter, the gains and losses that were accumulated in other comprehensive income are recognized immediately in earnings. When hedge accounting is discontinued because the Bank determines that the derivative no longer qualifies as an effective cash flow hedge of an existing hedged item, the Bank will continue to carry the derivative on the balance sheet at its fair value and will amortize the cumulative other comprehensive income adjustment to earnings when earnings are affected by the original forecasted transaction. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value of the derivative in current period earnings.

Derivatives assets and liabilities, comprising derivatives fair values and related net accrued interest, are reported on a net-by-counterparty basis on the Statements of Condition because management has determined a legal right of setoff exists under an enforceable netting agreement. Prior to January 1, 2001, the date of the adoption of SFAS 133 and Financial Accounting Standards Board Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts, accrued interest receivable and payable on interest rate exchange agreements were reported on a gross basis.

Hedging Activities.

General – The Bank enters into interest rate swaps, swaptions, interest rate cap and floor agreements, calls, and puts (collectively, interest rate exchange agreements) to manage its exposure to changes in interest rates. These interest rate exchange agreements, when linked with a designated financial instrument, effectively alter the financial characteristics of the designated instrument. They may adjust the effective maturity, repricing frequency, or option characteristics of financial instruments to achieve risk management objectives. The Bank uses interest

rate exchange agreements in three ways: as a fair value or cash flow hedge of an underlying financial instrument or a forecasted transaction, as an economic hedge for general asset liability management, or when acting as an intermediary. For example, the Bank uses interest rate exchange agreements in its overall management of interest rate risk to adjust the interest rate sensitivity of consolidated obligations to approximate more closely the interest rate sensitivity of assets (advances and investments), and/or to adjust the interest rate sensitivity of advances or investments to approximate more closely the interest rate sensitivity of liabilities. In addition to using interest rate exchange agreements to manage mismatches of interest rates between assets and liabilities, the Bank also uses interest rate exchange agreements to manage embedded options in assets and liabilities, to hedge the market value of existing assets and liabilities and anticipated transactions, to hedge the prepayment risk of prepayable instruments, and to reduce funding costs.

The Bank is not a derivatives dealer and does not trade derivatives for profit.

The Bank is subject to credit risk as a result of the risk of non-performance by counterparties to the derivative agreements. The degree of counterparty risk on derivative agreements depends on the extent to which master netting arrangements are included in such contracts to mitigate the risk. The Bank manages counterparty credit risk through credit analyses and collateral requirements and by following the requirements of the Finance Board's Financial Management Policy. Based on the master netting arrangements, its credit analyses, and the collateral requirements in place with each counterparty, management of the Bank does not anticipate any credit losses on its agreements.

Advances – With issuances of putable advances, the Bank purchases from the member a put option that enables the Bank to convert the advance from fixed rate to floating rate or to terminate the advance and extend replacement credit on new terms, at the Bank's option on specified put dates. The Bank may hedge a putable advance by entering into a cancelable interest rate exchange agreement under which the Bank pays a fixed rate and receives a variable rate. This type of hedge is treated as a fair value hedge under SFAS 133. The swap counterparty can cancel the interest rate exchange agreement on the put date, which would normally occur in a rising rate environment, and the Bank can convert the advance to a floating rate advance or terminate it depending on the terms of the advance.

The optionality embedded in certain financial instruments held by the Bank can create interest rate risk. When a member prepays an advance, the Bank could experience lower future income if the principal portion of the prepaid advance were invested in lower-yielding assets that continued to be funded by higher-cost debt. To protect against this risk, the Bank generally charges a prepayment fee that makes the Bank financially indifferent to a borrower's decision to prepay an advance. When the Bank offers advances (other than certain short-term advances) that a member may prepay without a prepayment fee, the Bank usually finances such advances with callable debt or otherwise hedges this option.

Consolidated Obligations – The Bank manages the risk arising from changing market prices and the volatility of a consolidated obligation by matching the cash inflow on the interest rate exchange agreement with the cash outflow on the consolidated obligation. In addition, the Bank requires collateral agreements on all interest rate exchange agreements. While consolidated obligations are the joint and several obligations of the FHLBanks, FHLBanks individually are counterparties to interest rate exchange agreements associated with specific debt issues.

In a typical transaction, fixed rate consolidated obligations are issued with proceeds distributed to one or more FHLBanks, and each of those FHLBanks simultaneously enters into a matching interest rate exchange agreement in which the counterparty pays fixed cash flows to the FHLBank designed to closely match in timing and amount the cash outflows the FHLBank pays on the consolidated obligation. The FHLBank pays a variable cash flow that closely matches the interest payments it receives on short-term or variable rate advances. Such transactions are treated as fair value hedges under SFAS 133. This intermediation between the capital and swap markets permits the FHLBank to raise funds at lower costs than would otherwise be available through the issuance of simple fixed or floating rate consolidated obligations in the capital markets.

Anticipated Debt Issuance – The Bank may enter into swaps on the anticipated issuance of debt to "lock in" a spread between the earning asset and the cost of funding. The swap is terminated upon issuance of the debt instrument, and amounts reported in accumulated other comprehensive income are recognized as earnings in the periods in which earnings are affected by the cash flows of the debt that was issued.

Intermediation – As an additional service to its members, the Bank enters into offsetting interest rate exchange agreements, acting as an intermediary between members and other counterparties. This intermediation allows members indirect access to the swap market. The derivatives used in intermediary activities do not receive SFAS 133 hedge accounting treatment and are separately marked to market through earnings. The net result of the accounting for these derivatives does not significantly affect the operating results of the Bank.

Premises and Equipment. The Bank records premises and equipment at cost less accumulated depreciation and amortization, which totaled approximately \$5,529 and \$4,326 at December 31, 2001 and 2000, respectively. Depreciation is computed on the straight-line method over the estimated useful lives of assets ranging from 3 to 10 years, and leasehold improvements are amortized on the straight-line method over the estimated useful life of the improvement or the remaining term of the lease, whichever is shorter. Improvements and major renewals are capitalized; ordinary maintenance and repairs are expensed as incurred. Gains and losses on disposal are included in other income. In May 1999, the Bank sold its San Francisco office building and realized a gain of \$24,099. The Bank recognized \$3,572 of the gain immediately upon the sale in 1999 and is deferring

and amortizing the remainder over the remaining term of the Bank's 10-year leaseback of the space the Bank occupies. The unamortized amount of the deferred gain outstanding at December 31, 2001, was \$15,373.

Concessions on Consolidated Obligations. The amounts paid to dealers in connection with the sale of consolidated obligation bonds are deferred and amortized using a method approximating the level-yield method over the term of the obligations or estimated life of the bonds. The amount of the concession is allocated to the Bank by the Office of Finance based on the percentage of the debt issued for which the Bank is the primary obligor. Concessions applicable to the sale of consolidated obligation discount notes are generally charged to interest expense as incurred because of the short-term maturities of these notes.

Discounts and Premiums on Consolidated Obligations. The discounts on consolidated obligation discount notes are amortized to expense using a method approximating the level-yield method over the term to maturity because of their short-term maturities. The discounts and premiums on consolidated obligation bonds are amortized to expense using a method approximating the level-yield method over the term to maturity of the consolidated obligation bonds or estimated life of the bonds.

Resolution Funding Corporation Assessments. The FHLBanks are required to make payments to the Resolution Funding Corporation (REFCORP). Through 1999, the FHLBanks charged the \$300 million annual capital distribution to REFCORP directly to retained earnings (see Note 12). Effective January 1, 2000, each FHLBank is required to pay 20% of net earnings (after AHP contributions) to REFCORP. The FHLBanks will expense these amounts until the aggregate amounts actually paid by all 12 FHLBanks are equivalent to a \$300 million annual annuity whose final maturity date is April 15, 2030, at which point the required payment of each FHLBank to REFCORP will be fully satisfied.

Other Expenses. Each FHLBank is assessed a share of the cost of operating the Finance Board and the Office of Finance, which manages the issuance and servicing of consolidated obligations.

Estimated Fair Values. Many of the Bank's financial instruments lack an available liquid trading market as characterized by frequent transactions between a willing buyer and willing seller engaging in an exchange transaction. Therefore, significant assumptions and present value calculations have been used by the Bank for the purpose of determining estimated fair values. Thus, the fair values may not represent the actual values of the financial instruments that could have been realized as of yearend or that will be realized in the future.

Carrying value is assumed to approximate fair value for financial instruments with three months or less to repricing or maturity. Fair values are based on quoted prices, market rates, or replacement rates for similar financial instruments as of the last business day of the year. The estimated fair values of the Bank's financial instruments and related assumptions are detailed in Note 15.

Cash Flows. For purposes of the Statements of Cash Flows, the Bank considers cash on hand and due from banks as cash and cash equivalents.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLE AND RECENTLY ISSUED ACCOUNTING STANDARD

Adoption of SFAS 133. The Bank adopted SFAS 133 on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The gains and losses on derivative instruments that are reported in other comprehensive income will be recognized as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current period earnings.

In accordance with the transition provisions of SFAS 133, the Bank reported the transition adjustment for each derivative designated as a fair value hedge as a cumulative effect adjustment of net income. Concurrently, any fair value gain or loss on the hedged item was recognized as an adjustment of the hedged item's carrying amount, but only to the extent of the offsetting transition adjustment of the derivative, and was also reported as a cumulative effect adjustment of net income.

The transition provisions also provided that at the date of initial implementation an entity was permitted to transfer any security classified as "held-to-maturity" to "trading" ("held-at-fair-value" securities). In accordance with the transition provisions of SFAS 133, the Bank recorded the following cumulative effect adjustments to increase or (decrease) earnings as of January 1, 2001:

Net adjustments related to (1) fair value hedges,	
(2) derivative transactions not designated as hedges under SFAS 133, and (3) derivative transactions not meeting the requirements for fair value or cash flow hedges	\$ (9,587)
Unrealized net gains on investments transferred from "held-to-maturity" to "held-at-fair-value"	7,134
Total cumulative effect on earnings of adopting SFAS 133	\$ (2,453)

The Bank also recorded cumulative effect adjustments to increase or (decrease) other comprehensive income as of January 1, 2001, and recorded changes in other comprehensive income for the year ended December 31, 2001, as follows:

Total cumulative effect of adopting SFAS 133 on accumulated other comprehensive income at January 1, 2001, resulting from previously deferred hedging losses	\$(17,065)
Net amounts recognized as earnings for the year ended December 31, 2001	12,217
Net change associated with hedging activities for the year ended December 31, 2001	102
Net change during period related to hedging activities	12,319
Total cumulative effect of adopting SFAS 133 on other comprehensive income at January 1, 2001, less net change during the year ended December 31, 2001, related to hedging activities	\$ (4,746)

On January 1, 2001, the Bank transferred held-to-maturity securities with an amortized cost of \$664,274 and an estimated fair value of \$671,408 into the held-at-fair-value securities category. The unrealized net gain related to the transfer of certain held-to-maturity securities into the held-at-fair-value securities category was \$7,134 and was shown as an increase to the Bank's results of operations in 2001 as a cumulative effect of adopting SFAS 133. The remaining cumulative effect of adjustments related to fair value hedges and derivative transactions either not designated as hedges under SFAS 133 or not meeting the requirements for fair value or cash flow hedges was shown as a charge to the Bank's results of operations in 2001 as part of the cumulative effect of adopting SFAS 133, decreasing net income by \$9,587. These factors combined resulted in a net SFAS 133 transaction loss on January 1, 2001, totaling \$2,453. In addition, the Bank recognized a loss of \$17,065 in accumulated other comprehensive income as part of the cumulative effect of adopting SFAS 133 at transition, decreasing capital.

As a result of SFAS 133, for the year ended December 31, 2001, the Bank recorded a net gain on derivatives and hedging activities of \$63,951 in other income. In addition, the Bank recorded derivative assets of \$479,860 and derivative liabilities of \$372,812 at December 31, 2001. For the year ended December 31, 2001, all cash flow hedges were highly effective. For fair value hedges and their related hedged items, the Bank recognized a net gain of \$70,400 in earnings, which represents the amount of the hedge's ineffectiveness, classified as "Net gain on derivatives and hedging activities" on the Statements of Income. For derivatives transactions not meeting the requirements for fair value or cash flow hedges, including those derivatives associated with held-at-fair-value securities, the Bank recognized a net loss of \$6,449 in earnings, which is included in "Net gain on derivatives and hedging activities" on the Statements of Income. In addition, there were no amounts for the year ended December 31, 2001, that were recognized as earnings as a result of the discontinuance of cash flow hedges because it became probable that the original forecasted transactions would not occur by the end of the originally specified time period or within two months thereafter. Nearly all of the deferred net loss on derivative instruments accumulated in other comprehensive income as of December 31, 2001, is expected to be recognized in earnings in 2002.

Certain notes included herein are adjusted to accommodate the effect of SFAS 133. In accordance with the transition provisions of SFAS 133, comparative information presented for prior years that is no longer relevant is not disclosed for 2001. Other disclosures for 2001 resulting from the implementation of SFAS 133 have been added, and comparative information for prior years that is not relevant is not disclosed.

Adoption of SFAS 140. In September 2000, Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140) was issued. SFAS 140 provides accounting and reporting requirements for all transfers and the servicing

of financial assets and the extinguishment of liabilities, effective for all transfers and extinguishments beginning after March 31, 2001, SFAS 140 is also effective for the recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Bank has adopted SFAS 140 and its adoption did not affect the financial condition or results of operations. In accordance with SFAS 140, the carrying value of assets pledged as collateral is disclosed on the Statements of Condition.

NOTE 3 - CASH AND DUE FROM BANKS

Compensating Balances. The Bank maintains average collected cash balances with several commercial banks in consideration for certain services. There are no legal restrictions under these agreements as to the withdrawal of these funds. The average compensating balances for the years ended December 31, 2001 and 2000, were approximately \$1,686 and \$5,735, respectively.

In addition, the Bank maintained average collected balances with the Federal Reserve Bank of San Francisco as required clearing balances and to facilitate the movement of funds to support the Bank's activities. There are regulations governing the withdrawal of these funds; however, earnings credits on these balances may be used to pay for services received. The average balances for this account for the years ended December 31, 2001 and 2000, were approximately \$4,261 and \$1,480, respectively.

NOTE 4 - SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

Securities purchased under agreements to resell (resale agreements) were as follows:

		GROSS	GROSS	ESTIMATED
	AMORTIZED	UNREALIZED	UNREALIZED	FAIR
	COST	GAINS	LOSSES	VALUE
December 31, 2001	\$2,150,000	\$ —	\$ —	\$2,150,000
December 31, 2000	\$ 400,000	\$ —	\$ —	\$ 400,000

Redemption Terms. The amortized cost and estimated fair value of resale agreements by contractual maturity as of December 31, 2001 and 2000, are shown below.

	2	001	20	000
YEAR OF MATURITY	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	\$2,150,000	\$2,150,000	\$400,000	\$400,000

The Bank engages in resale agreements with securities dealers, all of which are "primary dealers" as designated by the Federal Reserve Bank of New York. The amounts advanced under these agreements represent short-term loans and are reflected as assets in the Statements of Condition. The collateral from resale agreements, all of which is highly rated, is held by the Bank's safekeeping custodian. If the market value of the underlying securities decreases below the market value required as collateral, the counterparty is required to place additional securities in safekeeping in the name of the Bank. The Bank had rights to securities collateral with an estimated value in

excess of the resale agreements outstanding at December 31, 2001 and 2000.

Resale agreements averaged \$1,544,875 and \$1,523,936 during 2001 and 2000, respectively. The maximum amounts outstanding at any monthend during 2001 and 2000 were \$2,350,000 and \$4,379,091, respectively.

Interest Rate Payment Terms. The amortized cost of resale agreements, all with fixed rate interest payment terms, were \$2,150,000 and \$400,000 with average yields of 1.91% and 4.86% at December 31, 2001, and 2000, respectively.

NOTE 5 - HELD-TO-MATURITY SECURITIES

Security Types. Held-to-maturity securities were as follows:

		,		
DECEMBER 31, 2001	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Commercial paper	\$ 2,465,646	\$ —	\$ —	\$ 2,465,646
Housing finance agency bonds	837,080	_	(1,219)	835,861
Subtotal	3,302,726	_	(1,219)	3,301,507
Mortgage-backed securities	13,241,163	154,676	(1,273)	13,394,566
Total	\$16,543,889	\$154,676	\$(2,492)	\$16,696,073
DECEMBER 31, 2000	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Commercial paper	\$ 4,558,154	\$ —	\$ (633)	\$ 4,557,521
Housing finance agency bonds	204,000	3,460	_	207,460
Subtotal	4,762,154	3,460	(633)	4,764,981
Mortgage-backed securities	10,762,539	49,004	(8,449)	10,803,094
Subtotal	15,524,693	52,464	(9,082)	15,568,075
Associated interest rate swaps	_	101	(9,292)	(9,191)
Total	\$15,524,693	\$52,565	\$(18,374)	\$15,558,884

Redemption Terms. The amortized cost and estimated fair value of held-to-maturity securities, excluding associated interest rate exchange agreements, as of December 31, 2001 and 2000, are shown below. Expected maturities of certain securities and mortgage-backed securities will differ from contractual maturities because borrowers generally have the right to prepay obligations without prepayment fees.

		2001		2000
YEAR OF MATURITY	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	\$ 2,465,646	\$ 2,465,646	\$ 4,558,154	\$ 4,557,521
Due after ten years	s 837,080	835,861	204,000	207,460
Subtotal	3,302,726	3,301,507	4,762,154	4,764,981
Mortgage-backed securities	13,241,163	13,394,566	10,762,539	10,803,094
Total	\$16,543,889	\$16,696,073	\$15,524,693	\$15,568,075

The average yields on held-to-maturity securities due in one year or less were 2.09% and 6.52%, due after 10 years were 2.64% and 6.85%, and on mortgage-backed securities were

5.47% and 6.78% for the years ended December 31, 2001 and 2000, respectively. The amortized cost of the Bank's mortgage-backed securities classified as held-to-maturity included net discounts of \$20,211 and \$44,578 at December 31, 2001 and 2000, respectively.

Interest Rate Payment Terms. Interest rate payment terms for held-to-maturity securities and the notional principal of the interest rate exchange agreements associated with these securities at December 31, 2001 and 2000, are detailed in the following table:

	2001	2000
Amortized cost of held-to-maturity securities other than mortgage-backed securities:		
Fixed rate	\$ 2,465,646	\$ 4,558,154
Adjustable rate	837,080	204,000
Subtotal	3,302,726	4,762,154
Amortized cost of held-to-maturity mortgage-backed securities:		
Passthrough securities:		
Fixed rate	984,694	1,263,601
Adjustable rate	522,636	1,380,819
Collateralized mortgage obligations:		
Fixed rate	8,505,740	3,435,035
Adjustable rate	3,228,093	4,683,084
Subtotal	13,241,163	10,762,539
Total	\$16,543,889	\$15,524,693
Notional principal of associated interest rate swaps	\$ _	\$ 664,274

The effect of these interest rate swaps on interest income is disclosed in Note 14.

NOTE 6 - HELD-AT-FAIR-VALUE SECURITIES

In accordance with the provisions of SFAS 133, the interest rate exchange agreements associated with held-to-maturity securities are non-hedge qualifying. The transition provisions of SFAS 133 allowed the Bank to transfer any securities classified as "held-to-maturity" to "held-at-fair-value" (see Note 2). At December 31, 2001, held-at-fair-value securities, consisting of mortgage-backed securities, totaled \$527,870. The notional principal of interest rate swaps associated with these securities was \$513,084 at December 31, 2001. The effect of these interest rate swaps on interest income is disclosed in Note 14.

NOTE 7 - ADVANCES

Redemption Terms. At December 31, 2001 and 2000, the Bank had advances outstanding, including AHP advances (see Note 8), at interest rates ranging from 1.51% to 8.75% and 3.30% to 8.80%, respectively, as summarized below.

DECEMBER 31, 2001		AMOUNT	WEIGHTED AVERAGE
YEAR OF MATURITY		OUTSTANDING	INTEREST RATE
Overdrawn demand deposit accounts	\$	13,053	3.52%
2002		55,334,607	3.03
2003		29,084,048	3.51
2004		10,740,979	3.83
2005		1,565,130	4.24
2006		1,622,270	3.80
Thereafter		2,979,770	5.61
Subtotal		101,339,857	3.36%
Discount on AHP advances		(461)	
SFAS 133 valuation adjustments		914,278	
Deferred net loss on terminated interest rate exchange agreements		878	
Total	\$	102,254,552	
DECEMBER 31, 2000		AMOUNT	WEIGHTED AVERAGE
YEAR OF MATURITY		OUTSTANDING	INTEREST RATE
Overdrawn demand deposit accounts	\$	124	7.41%
2001		59,299,475	6.56
2002		24,422,784	6.40
2003		17,936,408	6.32
2004		4,086,171	6.08
2005		1,478,616	6.67
2006		113,657	6.59
Thereafter		2,694,250	6.15
Subtotal		110,031,485	6.46%
Discount on AHP advances		(609)	
Deferred net loss on interest rate exchange agreements		765	
Total	\$	110,031,641	
	_	, ,	

Many of the Bank's advances are prepayable at the member's option. However, when advances are prepaid, the member is generally charged a prepayment fee that makes the Bank financially indifferent to the prepayment. Some fixed rate advances may be repaid on pertinent call dates without incurring prepayment fees (Callable Advances). At December 31, 2001 and 2000, the Bank had Callable Advances outstanding totaling \$1,443,079 and \$2,025,850, respectively.

The following table summarizes advances at December 31, 2001 and 2000, by the earlier of the year of contractual maturity or next call date for Callable Advances:

EARLIER OF YEAR OF CONTRACTUAL MATURITY		
OR NEXT CALL DATE	2001	2000
Overdrawn demand deposit accounts	\$ 13,053	\$ 124
2001	_	60,674,225
2002	56,761,607	24,172,784
2003	27,716,048	16,830,658
2004	10,740,979	4,086,171
2005	1,525,130	1,478,616
2006	1,622,270	114,757
Thereafter	2,960,770	2,674,150
Total par value	\$ 101,339,857	\$ 110,031,485

The Bank also provides below-market fixed rate advances in exchange for the right of the Bank to retain a put option. At the Bank's discretion, on pertinent put dates, the Bank may terminate the advance (Putable Advance/Termination Option) or convert the advance to an Adjustable Rate Credit advance of predetermined index and spread for the remaining term to maturity (Putable Advance/Conversion Option). The Bank's advances at December 31, 2001 and 2000, included \$2,037,700 and \$1,786,000, respectively, of Putable Advances/Termination Option. There were no Putable Advances/Conversion Option outstanding as of December 31, 2001 and 2000.

The following table summarizes advances to members at December 31, 2001 and 2000, by the earlier of the year of contractual maturity or next put date for Putable Advances:

EARLIER OF YEAR OF CONTRACTUAL MATURITY OR NEXT PUT DATE		2001	2000
Overdrawn demand deposit accounts	\$	13,053	\$ 124
2001		_	60,399,975
2002		56,476,107	24,441,284
2003		29,443,948	17,991,908
2004		10,680,479	3,998,671
2005		1,422,130	1,305,616
2006		1,514,670	113,657
Thereafter		1,789,470	1,780,250
Total par value	\$1	01,339,857	\$ 110,031,485

Security Terms. The Bank lends to member financial institutions involved in housing finance that have a principal place of business in California, Arizona, or Nevada. The Bank is required by the FHLB Act to obtain sufficient collateral for advances to protect against losses and to accept only certain U.S. government or government agency securities, residential mortgage loans or mortgage-backed securities, deposits in the Bank, and other real estate-related assets as collateral for advances. The Bank may also accept secured small business loans, small farm, and small agribusiness loans as collateral from members that are "community financial institutions," defined as FDIC-insured depository institutions with average total assets over the preceding three-year period of less than \$517 million for 2001 (to be adjusted each year by the annual percentage increase in the Consumer Price Index).

The Bank requires each borrowing member to execute a written Advances and Security Agreement. The capital stock of the Bank owned by each borrowing member is pledged as additional collateral for the member's indebtedness to the Bank. The FHLB Act requires that the aggregate advances from the Bank to a member may not exceed 20 times the amount paid by the member for capital stock of the Bank. At December 31, 2001 and 2000, the Bank had a security interest in collateral with an estimated value in excess of outstanding advances for each member. Based on the financial condition of the borrowing member, the Bank may either (1) allow the member to physically retain mortgage collateral assigned to the Bank, provided that the member agrees to hold the collateral for the benefit of the Bank, or (2)

require the member to deliver physical possession of the mortgage collateral to the Bank or its safekeeping agent. All securities collateral is delivered to the Bank's safekeeping agent.

Beyond these provisions, Section 10(e) of the FHLB Act affords any security interest granted by a member to the Bank priority over claims or rights of any other party, except claims that would be entitled to priority under otherwise applicable law or perfected security interests.

Credit Risk. The Bank has never experienced any credit losses on advances, nor does management of the Bank anticipate any credit losses on advances outstanding as of December 31, 2001. Based on the collateral held as security for advances, management's credit analyses, and prior repayment history, no allowance for losses on advances is deemed necessary by management.

The Bank's potential credit risk from advances is concentrated in savings institutions. As of December 31, 2001, the Bank had a concentration of advances totaling \$79,007,521 outstanding to three members, representing 78% of total outstanding advances (45%, 22%, and 11%, respectively). The interest income from advances to these members amounted to approximately \$3,986,831 during 2001. The Bank held collateral with an estimated value in excess of advances to these institutions, and the Bank does not expect to incur any credit losses on these advances.

Interest Rate Payment Terms. Interest rate payment terms for advances and the notional principal of the interest rate exchange agreements associated with advances at December 31, 2001 and 2000, are detailed below:

	2001	2000
Par amount of advances:		
Fixed rate	\$ 61,696,838	\$ 60,014,081
Adjustable rate	39,643,019	50,017,404
Total	\$ 101,339,857	\$ 110,031,485
Notional principal of interest rate exchange agreements associated with advances:		
Interest rate swaps	\$ 43,437,024	\$ 44,702,747
Interest rate caps purchased	1,380,110	1,178,610
Total	\$ 44,817,134	\$ 45,881,357

The effect of these interest rate exchange agreements on interest income is disclosed in Note 14.

Prepayment Fees, Net. During 2001, 2000, and 1999, the Bank charged its members prepayment fees when the principal on certain advances was paid prior to original maturity. In addition, some of these advances were associated with interest rate exchange agreements. Upon termination of these advances, prior to January 1, 2001, the associated interest rate exchange agreements were either marked to market and redesignated as hedges of other advances or terminated, and the resulting gains or losses were netted with the prepayment fees on the Statements of Income. Starting January 1, 2001, the resulting gains or losses were recognized in accordance with SFAS 133 (see Note 2). These transactions during the years ended December 31, 2001, 2000, and 1999, are summarized in the following table:

		2001		2000		1999
Prepayment fees received	\$	5,953	\$	811	\$	1,398
Net (losses)/gains on interest rate exchange agreements associated with prepaid advances		_		(419)		701
Prepayment fees, net	\$	5,953	\$	392	\$	2,099
Advance principal prepaid	\$1,	859,685	\$ 85	54,135	\$ 5	37,000

NOTE 8 - AFFORDABLE HOUSING PROGRAM

Section 10(i) of the FHLB Act requires each FHLBank to establish an AHP. Each FHLBank provides subsidies in the form of direct grants and below-market interest rate advances to members, which use the funds to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderateincome households. Annually, the FHLBanks must set aside for their AHPs, in the aggregate, the greater of \$100 million or 10% of the current year's income before charges for the AHP but after the assessment for REFCORP (see Note 12). To the extent that the aggregate 10% calculation is less than \$100 million, the shortfall is allocated among the FHLBanks based on the ratio of each FHLBank's income before AHP and REFCORP to the sum of the net incomes before AHP and REFCORP of the 12 FHLBanks. There was no AHP shortfall in 2001 2000, or 1999. The Bank set aside \$47,177, \$41,843, and \$31,651, during 2001, 2000, and 1999, respectively, for the AHP. These amounts were charged to earnings each year and recognized as a liability. As subsidies are disbursed, the AHP liability is reduced.

NOTE 9 - DEPOSITS

The Bank maintains demand deposit accounts that are directly related to the extension of credit to members and offers short-term deposit programs to members and qualifying non-members.

Interest Rate Payment Terms. Interest rate payment terms for deposits at December 31, 2001 and 2000, are detailed in the following table:

	2001	2000
Deposits:		
Fixed rate	\$ 36,000	\$ 28,800
Adjustable rate	715,617	347,613
Total	\$751,617	\$ 376,413

NOTE 10 - BORROWINGS

At times the Bank enters into sales of securities under agreements to repurchase (repurchase agreements) with securities dealers, all of which are "primary dealers" as designated by the Federal Reserve Bank of New York. The amounts received under these agreements represent short-term borrowings and are reflected as liabilities in the Statements of Condition. The securities sold under agreements to repurchase are delivered to the purchasing primary dealers or their custodians. Should the market value of the underlying securities decrease below the market value required by the repurchase agreements, the Bank is required to deliver additional securities to the dealers. Repurchase agreements averaged \$198,907 during 2000, and the maximum amount outstanding at any monthend during

2000 was \$400,000. There were no repurchase agreements outstanding during 2001 or at December 31, 2000.

The Bank had other borrowings due to a member at December 31, 2001, of \$200,000, bearing interest at the overnight Federal funds rate.

NOTE 11 - CONSOLIDATED OBLIGATIONS

Consolidated obligations are the joint and several obligations of the FHLBanks and consist of consolidated obligation bonds and discount notes. Through December 31, 2000, the Finance Board issued consolidated bonds through the Office of Finance primarily to raise intermediate- and long-term funds for the FHLBanks. Usually the maturity of consolidated obligation bonds ranges from one year to ten years, but the maturity is not subject to any statutory or regulatory limits. Through December 31, 2000, the Finance Board issued consolidated obligation discount notes through the Office of Finance primarily to raise short-term funds. These notes are issued at less than their face amount and redeemed at par when they mature. The Finance Board adopted final rules on June 2, 2000, to govern the issuance of debt for the FHLBanks. Effective January 1, 2001, the Finance Board discontinued issuing debt on behalf of the FHLBanks; instead, all new debt is jointly issued by the FHLBanks through the Office of Finance, which serves as their agent.

The par amount of the outstanding consolidated obligations of all the FHLBanks, including consolidated obligations held by other FHLBanks, was approximately \$637,331,833 and \$614,064,795 at December 31, 2001 and 2000, respectively. Regulations require the FHLBanks to maintain, in the aggregate, unpledged "Qualifying Assets" in an amount equal to the consolidated obligations outstanding. "Qualifying Assets" are defined as cash; secured advances; assets with an assessment or credit rating at least equivalent to the current assessment or credit rating of the consolidated obligations; obligations, participations, mortgages, or other securities of or issued by the United States or an agency of the United States; and such securities as fiduciary and trust funds may invest in under the laws of the state in which the FHLBank is located.

On June 2, 2000, the Finance Board adopted a final rule amending the FHLBanks' leverage limit requirements. Effective July 1, 2000, each FHLBank's leverage limit is based on a ratio of assets to capital, rather than a ratio of liabilities to capital. The Finance Board's former regulations prohibited the issuance of consolidated obligations if such issuance would bring the FHLBanks' outstanding consolidated obligations and other unsecured senior liabilities above 20 times the FHLBanks' total capital. The Finance Board's Financial Management Policy also applied these limits on an FHLBank-by-FHLBank basis. The final rule generally limits each FHLBank's assets to no more than 21 times its capital. Nevertheless, an FHLBank whose nonmortgage assets, after deducting deposits and capital, do not exceed 11% of its assets may have total assets in an amount not greater than 25 times its capital. At December 31, 2001, the Bank's total assets to capital and non-mortgage assets to total assets ratios were 19.9x and 8.07%, respectively.

To provide the holders of consolidated obligations issued prior to January 29, 1993 (prior bondholders), protection equivalent to that provided under the FHLBanks' previous leverage limit of 12 times the FHLBanks' aggregate capital stock, prior bondholders have a claim on a certain amount of the Qualifying Assets (Special Asset Account or SAA) if the FHLBanks' aggregate capital stock is less than 8.33% of consolidated obligations outstanding. The FHLBanks' capital stock at December 31, 2001 and 2000, was 5.2% and 5.0%, respectively, of the par value of consolidated obligations outstanding, and the SAA balance was approximately \$28,343 and \$37,100 respectively. The Bank's share of this SAA balance was approximately \$5,899 and \$8,000 at December 31, 2001 and 2000, respectively. Further, each FHLBank is required to transfer Qualifying Assets in the amount of its allocated share of the FHLBanks' SAA to a trust for the benefit of the prior bondholders if its individual capital to assets ratio falls below 2.0%.

General Terms. Consolidated obligations are generally issued with either fixed rate payment terms or adjustable rate payment terms, which use a variety of indices for interest rate resets, including the London Interbank Offered Rate (LIBOR), Federal funds, U.S. Treasury Bill, Constant Maturity Treasury (CMT), Prime Rate, and others. In addition, to meet the specific needs of certain investors, fixed rate and adjustable rate consolidated obligation bonds may also contain certain embedded features, which may result in complex coupon payment terms and call options. Generally, when such consolidated obligations are issued, the Bank simultaneously enters into interest rate exchange agreements containing offsetting features to convert the terms of the bond, in effect, to the terms of a simple adjustable rate bond (tied to an index, such as those detailed above) or a fixed rate bond.

Consolidated obligations, in addition to having fixed rate or simple adjustable rate coupon payment terms, may also include "callable bonds," which the Bank may redeem in whole or in part at its discretion on predetermined call dates according to the terms of the bond offerings; "step-up bonds," which generally pay interest at increasing fixed rates for specified intervals over the life of the bond and can be called at the Bank's option on the step-up dates; "comparative index bonds," which have coupon rates that are determined by the difference between two or more market indices; "inverse floating bonds," which have coupons that increase as an index declines and decrease as an index rises; "zero-coupon bonds," which are long-term discounted instruments that earn a fixed yield to maturity or to the optional principal redemption date, and for which all principal and interest are paid at maturity or at the optional principal redemption date, if exercised prior to maturity; and "index amortizing notes," which repay principal according to predetermined amortization schedules that are linked to the level of a certain index. As of December 31, 2001, most of the index amortizing notes had fixed rate coupon payment terms. Usually, as market interest rates fall, the maturity of the index amortizing notes contracts.

Redemption Terms. The following is a summary of the Bank's participation in consolidated obligation bonds:

participation in consolidated obli	igation bonds.	
DECEMBER 31, 2001	AMOUNT	WEIGHTED AVERAGE
YEAR OF MATURITY	OUTSTANDING	INTEREST RATE
2002	\$ 36,128,780	3.96%
2003	31,208,625	3.46
2004	15,110,800	4.73
2005	6,389,600	5.29
2006	8,048,200	5.06
Thereafter	6,768,890	5.72
Index amortizing notes	180,000	5.30
Total par value	103,834,895	4.21%
Concessions	(27,700)	
Bond premiums	17,860	
Bond discounts	(61,968)	
SFAS 133 valuation adjustments	894,045	
Total	\$104,657,132	
DECEMBER 31, 2000		WEIGHTED
YEAR OF MATURITY	AMOUNT OUTSTANDING	AVERAGE INTEREST RATE
2001	\$45,397,450	6.06%
2002	26,313,950	6.06
2003	14,731,050	5.87
2004	7,175,300	6.21
2005	2,302,900	6.86
2006	409,500	6.46
Thereafter	1,096,075	6.14
Total par value	97,426,225	6.06%
Concessions	(6,914)	
Bond premiums	18,425	
Bond discounts	(72,117)	
Deferred net loss on terminated interes exchange agreements	t rate (11)	

The Bank's participation in consolidated obligation bonds outstanding at December 31, 2001 and 2000, includes callable bonds of \$36,859,640 and \$39,487,850, respectively. Contemporaneous with such callable bond issuance, the Bank usually enters into an interest rate swap (in which the Bank pays a variable rate and receives a fixed rate) with a call feature that mirrors the option embedded in the bond (a sold callable swap). The combined sold callable swap and callable bond enable the Bank to meet its funding needs at costs not otherwise directly attainable solely through the issuance of non-callable debt. The Bank also uses fixed rate callable bonds to finance fixed rate callable advances (see Note 7) and fixed rate mortgage-backed securities.

\$97,365,608

The Bank's participation in consolidated obligation bonds was as follows:

		2001	2000
Par amount of consolidated obligation bond	ds:		
Non-callable	\$	66,975,255	\$57,938,375
Callable		36,859,640	39,487,850
Total	\$	103,834,895	\$ 97,426,225

Total

The following is a summary of the Bank's participation in consolidated obligation bonds outstanding at December 31, 2001 and 2000, by the earlier of the year of contractual maturity or next call date:

EARLIER OF YEAR OF CONTRACTUAL MATURITY OR NEXT CALL DATE	DECEMBER 31, 2001	DECEMBER 31, 2000
2001	\$ —	\$68,373,000
2002	56,575,120	19,548,950
2003	33,408,800	6,717,800
2004	9,968,500	1,265,000
2005	618,900	490,900
2006	2,062,500	204,500
Thereafter	1,021,075	826,075
Index amortizing notes	180,000	
Total	\$103,834,895	\$97,426,225

Interest Rate Payment Terms. Interest rate payment terms for consolidated obligations at December 31, 2001 and 2000, and the notional principal of the interest rate exchange agreements associated with consolidated obligations at December 31, 2000, are detailed in the following table:

	2001	2000
Par amount of consolidated obligations:		
Bonds:		
Fixed rate	\$ 73,477,155	\$ 78,276,775
Adjustable rate	25,205,000	17,320,000
Step-up	2,805,000	537,550
Comparative index	1,777,740	301,900
Zero-coupon	390,000	825,000
Index amortizing notes	180,000	_
Inverse floating	_	165,000
Total bonds, par	103,834,895	97,426,225
Discount notes, par	21,362,047	32,477,869
Total consolidated obligations, par	\$125,196,942	\$129,904,094
Notional principal of associated interest rate swaps	\$ 98,570,192	\$109,230,995

The effect of these interest rate swaps on interest expense is disclosed in Note 14.

The Bank's participation in consolidated obligation discount notes, all of which are due within one year, was as follows:

	2	001	20	000
	AMOUNT OUTSTANDING	WEIGHTED AVERAGE INTEREST RATE	AMOUNT OUTSTANDING	WEIGHTED AVERAGE INTEREST RATE
Par value	\$21,362,047	2.37%	\$32,477,869	6.25%
Discounts	(82,882)		(362,774)	
Concessions	(433)		(612)	
SFAS 133 valuation adjustments	3,887		_	
Deferred net loss on terminated interest rate exchange			(17.052)	
agreements			(17,052)	
Total	\$21,282,619		\$32,097,431	

Section 11(i) of the FHLB Act authorizes the Secretary of the Treasury, at his discretion, to purchase certain obligations issued by the FHLBanks aggregating not more than \$4.0 billion; terms, conditions and interest rates are to be determined by the Secretary of the Treasury. There were no such purchases by the U.S. Treasury during the two-year period ended December 31, 2001.

Extraordinary Item - Early Retirement of Debt. During 2001, 2000, and 1999, the Bank retired consolidated obligations either by purchasing such obligations in the open market or by selling its participation in certain obligations to other FHLBanks. Some of these obligations were designated to interest rate exchange agreements that were marked to market and terminated at the date of retirement. Prior to January 1, 2001, the resulting gain or loss, if material, was netted with the gain or loss on the early retirement of debt. Starting January 1, 2001, the resulting gain or loss is recognized in accordance with SFAS 133 (see Note 2). The 2001, 2000, and 1999 transactions are summarized in the following table:

		2001		2000		1999
(Loss)/gain on sale of consolidated obligations to other FHLBanks	\$	_	\$	(73)	\$	772
(Loss)/gain on retirement of consolidated obligations		(555)		13,584		2,063
Loss on interest rate exchange agreements associated with consolidated obligations sold to other FHLBanks or retired in the market		_		(12,165)		(1,489)
Extraordinary (loss)/gain	\$	(555)	\$	1,346	\$	1,346
Par value retired	\$1	10,000	\$1	,237,450	\$5	33,650

NOTE 12 - CAPITAL

The Gramm-Leach-Bliley Act (GLB Act) will lead to a number of changes in the capital structure of the FHLBanks. On January 30, 2001, the Finance Board published a final capital rule requiring each FHLBank to submit a capital plan to the Finance Board for approval. The Bank submitted its proposed capital plan on October 29, 2001. Until an FHLBank fully implements its new capital plan, the current capital rules remain in effect. In particular, the FHLB Act requires each member to purchase capital stock equal to the greater of 1% of its mortgage-related assets or 5% of its outstanding FHLBank advances. However, the GLB Act removed the provision that required a nonthrift member to purchase additional stock to borrow from its FHLBank if the nonthrift member's mortgage-related assets were less than 65% of its total assets. A member may, at the Bank's discretion, redeem at par value any capital stock greater than its statutory requirement or sell it to other Bank members at par value.

When an FHLBank's capital plan has been approved by the Finance Board and implemented by the FHLBank, the FHLBank will be subject to risk-based capital rules. Each FHLBank may offer two classes of stock. Members may redeem Class A stock by giving six months' notice, and members may redeem

Class B stock by giving five years' notice. Only "permanent" capital, defined as retained earnings and Class B stock, can satisfy the risk-based capital requirement. In addition, the GLB Act specifies a 5% minimum leverage capital ratio with a 1.5 weighting factor for permanent capital, and a 4% minimum leverage capital ratio without the 1.5 weighting factor.

The GLB Act established voluntary membership for all members. All members may withdraw from membership and redeem their capital stock after giving the required notice. Members that withdraw from membership may not reapply for membership for five years.

On June 22, 2000, the Finance Board rescinded its dividend policy applicable to the FHLBanks. This rescission effectively eliminated the requirement that the FHLBanks restrict retained earnings for that portion of income from prepayment fees that, if allocated on a pro rata basis over the maturity of the advances prepaid, would be allocated to future dividend periods. Other gains and losses related to the termination of interest rate exchange agreements and early retirement of consolidated obligations have been similarly treated. The Bank's Board of Directors adopted a policy to continue the practice of restricting retained earnings generally consistent with the Finance Board's rescinded dividend policy. Retained earnings restricted in accordance with these policies totaled \$6,496, \$7,079, and \$10,716, at December 31, 2001, 2000, and 1999, respectively.

In accordance with the retained earnings policy of the Bank, effective January 1, 2001, the Bank retains in restricted retained earnings any cumulative net gains in earnings (net of applicable assessments) resulting from SFAS 133. Retained earnings restricted in accordance with this policy totaled \$50,805 at December 31, 2001. The Bank's retained earnings in the future may not be sufficient to offset the full impact of SFAS 133. As a result, the effect of SFAS 133 may lead to increased volatility in future earnings and dividends.

The Bank's Board of Directors may declare and pay, either in cash or capital stock, dividends only from retained earnings or current net earnings.

Through 1999, the 12 FHLBanks combined were required to pay \$300 million annually through 2030 to fund a portion of the interest on REFCORP debt. Prior to the payment of any dividends, each FHLBank was initially assessed up to 20% of its net income (after AHP contributions) to meet the required payments. To the extent that 20% of net income was insufficient to meet the required \$300 million assessment in any year, the shortfall was allocated among all FHLBanks based on the percentage equal to the ratio of the FHLBank's average advances to members that were members of the Savings Association Insurance Fund (SAIF) during the preceding year to the FHLBanks' total average advances to SAIF-insured members during that year. If the initial 20% assessment calculation exceeded the required \$300 million, the \$300 million was allocated among the FHLBanks based on the ratio of each FHLBank's net income

after AHP contributions to the FHLBanks' aggregate net income after AHP contributions. Higher net earnings in 1999 for the 12 FHLBanks combined enabled the FHLBanks to pay their \$300 million annual assessment without a shortfall allocation.

Effective January 1, 2000, the GLB Act changed these required payments to 20% of net earnings for each FHLBank, with the final payment adjusted so that the aggregate payments made by all 12 FHLBanks are equivalent to a \$300 million annual annuity whose final maturity date is April 15, 2030. The cumulative amount to be paid to REFCORP by the Bank is not determinable at this time because of the uncertainty of the FHLBanks' future earnings. The FHLBanks' payments during 2000 and 2001 defeased all future benchmark annuity payments after the second quarter of 2023 and \$51,289 of the \$75,000 benchmark annuity payment for the second quarter of 2023.

Effective April 1999, the Bank implemented its mandatory surplus capital stock redemption policy. Surplus capital stock is defined as any excess stock holdings above 115% of a member's statutory capital stock requirement, excluding stock dividends earned and credited for the current year. In accordance with this plan, the Bank redeemed \$363,390 and \$367,624 in surplus capital stock in 2001 and 2000, respectively. At December 31, 2001, surplus capital stock subject to mandatory redemption in January 2002 was \$285,994.

As of December 31, 2001, the Bank had a concentration of capital stock totaling 49.5 million shares outstanding to three members, representing 74% of total capital stock outstanding (41%, 22%, and 11%, respectively).

NOTE 13 - EMPLOYEE RETIREMENT PLANS

Prior to January 1, 1996, the Bank was a participant in the Financial Institutions Retirement Fund (FIRF), a defined benefit plan. The Bank funded its share of FIRF's normal cost each plan year through June 30, 1987. In the plan year beginning July 1, 1987, the "full-funding limitation" (as defined by the Employee Retirement Income Security Act) became applicable to the Bank because of favorable investment and other actuarial experience in previous years. As a result, the Bank was no longer required or permitted to make payments to FIRF in subsequent plan years.

Effective January 1, 1996, the Bank ceased to be a participating employer in FIRF, and the Bank began providing retirement benefits through a new Bank-sponsored Cash Balance Plan, a defined benefit plan. The Cash Balance Plan covers all employees who have completed six months of Bank service. Under the plan, each eligible Bank employee accrues benefits annually equal to 6% of the employee's annual pay, plus 6% interest on the benefits accrued to the employee through the prior yearend. The Cash Balance Plan is funded through a trust established by the Bank.

In February 1999, with approval from the Internal Revenue Service, the Bank implemented a spin-off/termination involving the Cash Balance Plan. The benefits of all inactive Cash

Balance Plan participants (individuals who no longer work for the Bank) as of February 28, 1999, along with most of the surplus assets in the Cash Balance Plan (plan assets that exceeded plan liabilities) net of the 2000 funding requirement for active employees, were transferred to a separate spin-off plan, which was then immediately terminated. At that time, the Bank recognized the remaining unamortized deferred gain, or \$10,507. The projected benefit obligation and the accrued pension cost of the Cash Balance Plan were \$4,466 and \$1,132, respectively, at December 31, 2001, and \$4,044 and \$2,329, respectively, at December 31, 2000. The periodic pension cost for the years ended December 31, 2001 and 2000, totaled \$843 and \$769, respectively.

Prior to January 1, 2002, the Bank participated in the Financial Institutions Thrift Plan, a defined contribution savings plan. Contributions to this plan consisted of elective participant contributions and a Bank matching contribution of up to 6% of those participant contributions (based on compensation). The Bank contributed approximately \$634, \$572, and \$521, in 2001, 2000, and 1999, respectively, to the plan. Effective January 1, 2002, the Bank withdrew its participation in the Financial Institutions Thrift Plan and implemented a successor defined contribution savings plan, the Federal Home Loan Bank of San Francisco Savings Plan. Contributions to the successor plan also consist of elective participant contributions and a Bank matching contribution of up to 6% of those participant contributions (based on compensation).

In addition, the Bank maintains a deferred compensation plan that is available to all officers and directors. The plan liability consists of the accumulated compensation deferrals and accrued earnings on the deferrals. The Bank's obligation for this plan at December 31, 2001 and 2000, was \$8,082 and \$7,045, respectively.

NOTE 14 - INTEREST RATE EXCHANGE AGREEMENTS

The contractual or notional amounts of interest rate exchange agreements reflect the extent of the Bank's involvement in particular classes of financial instruments. The notional amount does not represent the exposure to credit loss. The amount potentially subject to credit loss is the estimated cost of replacing the favorable interest rate exchange agreement if the counterparty defaults and is substantially less than the notional amount. The Bank is subject to credit risk relating to the nonperformance by a counterparty to a non-exchange-traded interest rate exchange agreement. However, based on management's credit analyses of its counterparties and on the Bank's netting arrangements and collateral requirements, no allowance for losses is deemed necessary by management.

Maximum credit risk is defined as the estimated cost of replacement for favorable interest rate exchange agreements in the event of counterparty default if the related collateral proves to be of no value to the Bank. At December 31, 2001 and 2000, the Bank's maximum credit risk, as defined above, was approximately \$479,860 and \$137,000, respectively, including \$231,041 and \$102,307 of net accrued interest receivable, respectively. Accrued interest receivables and payables, and the legal right to offset assets and liabilities by counterparty, in which amounts recognized for individual transactions may be offset against amounts recognized for other transactions with the same counterparty, are considered in determining the maximum credit risk. The Bank held investment grade securities with a fair value of \$421,000 and \$67,000 as collateral from counterparties as of December 31, 2001 and 2000, respectively. This collateral has not been sold or repledged.

A significant number of the Bank's interest rate exchange agreements are transacted with financial institutions such as major banks and broker-dealers. Some of these banks and dealers or their affiliates buy, sell, and distribute consolidated obligations. Assets pledged as collateral by the Bank to these counterparties are more fully discussed in Note 16.

The notional principal by class type of designated interest rate exchange agreements associated with held-at-fair-value securities, advances, and consolidated obligations outstanding at December 31, 2001 and 2000, is detailed in Notes 6, 7, and 11, respectively. The notional principal of interest rate exchange agreements by class in which the Bank is an intermediary is detailed below.

Intermediation. Interest rate exchange agreements in which the Bank is an intermediary may arise when the Bank enters into offsetting interest rate exchange agreements with members and other counterparties to meet the needs of members or when the Bank enters into interest rate exchange agreements to offset the economic effect of other interest rate exchange agreements that are no longer designated to advances, investments, or consolidated obligations. The notional principal of the interest rate exchange agreements in which the Bank is an intermediary at December 31, 2001 and 2000, was \$820,200 and \$1,145,400, respectively.

Loss on Interest Rate Exchange Agreements, Net. During 1999, the Bank terminated \$575,000 in notional principal of interest rate swaps, \$1,100,000 in notional principal of interest rate floors, and \$500,000 in notional principal of interest rate caps that were hedging the current and future issuance of discount notes. As mentioned in Note 2, as a result of the adoption of SFAS 133, the remaining unamortized balance of the deferred losses at December 31, 2000, was recognized in accumulated other comprehensive income in January 2001 as part of the cumulative effect of adopting SFAS 133. The unamortized balance of these deferred losses at December 31, 2001, is \$4,848 and is reflected in accumulated other comprehensive loss.

Income Effect. The effect of the Bank's interest rate exchange agreements for the years ended December 31, 2001, 2000, and 1999, was to increase or (decrease) interest income and interest expense as follows:

	2001	2000	1999
Interest income:			
Advances	\$ (534,604)	\$ 151,402	\$ (68,651)
Held-to-maturity securities	_	(179)	(7,549)
Held-at-fair-value securities	(12,655)	_	_
Resale agreements	_	_	(16)
Interest expense:			
Consolidated obligations	(995,627)	312,218	(143,583)
Net Interest Income	\$ 448,368	\$ (160,995)	\$ 67,367

NOTE 15 - ESTIMATED FAIR VALUES

Cash and Due from Banks. The estimated fair values approximate the carrying values.

Resale Agreements and Federal Funds Sold. The estimated fair values of these instruments have been determined by calculating the present value of expected cash flows for instruments with more than three months to maturity or repricing. The discount rates used in these calculations are the replacement rates for securities with similar terms. For instruments with three months or less to maturity or repricing, the recorded carrying value approximates the estimated fair value.

Held-to-Maturity and Held-at-Fair-Value Securities. The estimated fair value of these instruments, including mortgage-backed securities with more than three months to maturity or repricing, has been determined based on quoted prices or by calculating the present value of expected cash flows as of the last business day of the year excluding accrued interest. For instruments with three months or less to maturity or repricing, the recorded carrying value approximates the estimated fair value.

Advances. For advances with more than three months to maturity or repricing, the estimated fair value has been determined by calculating the present value of expected cash flows from the advances and reducing this amount for accrued interest receivable. The discount rates used in these calculations are the replacement rates for advances with similar terms. Pursuant to the Finance Board's advances regulation, advances with a maturity or repricing period greater than six months generally require a prepayment fee sufficient to make the Bank financially indifferent to the borrower's decision to prepay the advances. Therefore, the estimated fair value of advances does not assume prepayment risk. For advances with three months or less to maturity or repricing, the recorded carrying value approximates the estimated fair value.

Accrued Interest Receivable and Payable. The recorded carrying value approximates the estimated fair value.

Derivative Assets/Liabilities. The Bank bases the estimated fair values of interest rate exchange agreements on the estimated costs of instruments with similar terms or available market prices, including accrued interest receivable and pavable. However, active markets do not exist for many types of financial instruments. Consequently, fair values for these instruments are estimated using techniques such as discounted cash flow analysis, option pricing models, and comparisons to similar instruments. Estimates developed using these methods are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Changes in these judgments often have a material effect on the fair value estimates. Since these estimates are made as of a specific point in time, they are susceptible to material near-term changes. The fair values are netted by counterparty where such legal right exists. If these netted amounts are positive, they are classified as an asset and if negative, a liability.

Deposits. For deposits with more than three months to maturity or repricing, the estimated fair value has been determined by calculating the present value of expected future cash flows from the deposits and reducing this amount for accrued interest payable. The discount rates used in these calculations are the cost of deposits with similar terms. For deposits with three months or less to maturity or repricing, the recorded carrying value approximates the estimated fair value.

Consolidated Obligations. The estimated fair value has been determined based on the estimated cost of raising comparable term debt. The estimated cost of issuing debt is determined daily based on the primary market for debt of government-sponsored enterprises and other indications from securities dealers; the estimated cost of issuing debt includes non-interest selling costs.

Borrowings. For borrowings with more than three months to maturity or repricing, the estimated fair value has been determined by calculating the present value of expected future cash flows from the borrowings and reducing this amount for accrued interest payable. The discount rates used in these calculations are the costs of borrowings with similar terms. For borrowings with three months or less to maturity or repricing, the recorded carrying value approximates the estimated fair value.

Commitments. The estimated fair value of the Bank's commitments to extend credit, including letters of credit, was immaterial at December 31, 2001 and 2000.

The estimated fair values of the Bank's financial instruments at December 31, 2001 and 2000, were as follows:

FAIR VALUE OF FINANCIAL INSTRUMENTS - 2001

FAIR VALUE OF FINANCIAL INSTRUMENTS - 2001		CARRYING VALUE		NET UNREALIZED GAINS/(LOSSES)		ESTIMATED FAIR VALUE	
ASSETS							
Cash and due from banks	\$ 1,88	9	\$	_	\$	1,889	
Interest-bearing deposits in banks	4,487,00	0		_		4,487,000	
Securities purchased under agreements to resell	2,150,00	2,150,000		_		2,150,000	
Federal funds sold	8,445,00	0		_		8,445,000	
Held-to-maturity securities	16,543,88	9	15	52,184	1	6,696,073	
Held-at-fair-value securities	527,87	527,870 —		_	527,870		
Advances	102,254,55	102,254,552		115,123		102,369,675	
Loans to other Federal Home Loan Banks	25,00	25,000		_		25,000	
Accrued interest receivable	418,606		_		418,606		
Derivative assets	479,860		_		479,860		
Other assets	22,07	22,072				22,072	
Total	\$135,355,738		\$ 267,307		\$13	5,623,045	
LIABILITIES							
Deposits	\$ 751,61	7	\$	(8)	\$	751,625	
Other borrowings	200,00	0		_		200,000	
Consolidated obligations:							
Bonds	104,657,132		(80,036)		10	4,737,168	
Discount notes	21,282,619		(27,301)		21,309,920		
Accrued interest payable	1,080,127		_			1,080,127	
Derivative liabilities	372,81	2		_		372,812	
Other liabilities	201,96	57			201,967		
Total	\$128,546,27	4	\$(10)7,345)	\$12	8,653,619	

FAIR VALUE OF FINANCIAL INSTRUMENTS - 2000

FAIR VALUE OF FINANCIAL INSTRUMENTS - 2000		CARRYING VALUE	NET UNRI GAINS/(L			ESTIMATED FAIR VALUE
ASSETS						
Cash and due from banks	\$	4,584	\$	_	\$	4,584
Interest-bearing deposits in banks		2,698,000	(11,684)			2,686,316
Securities purchased under agreements to resell		400,000		_		400,000
Federal funds sold	8,376,000		(1,450)		8,374,550	
Held-to-maturity securities	1	5,524,693	43,382		15,568,075	
Interest rate exchange agreements associated with held-to-maturity securities			(9,191)		(9,191)	
Held-to-maturity securities, net	15,524,693		34,191		15,558,884	
Advances	110,031,641		334,439		110,366,080	
Interest rate exchange agreements associated with advances			(193,690)			(193,690)
Advances, net	110,031,641		140,749		11	0,172,390
Accrued interest receivable	3,136,776		_			3,136,776
Other assets	18,314					18,314
Total	\$140,190,008		\$ 161,806		\$14	10,351,814
LIABILITIES						
Deposits	\$	376,413	\$	_	\$	376,413
Consolidated obligations:						
Bonds	9	7,365,608	(3	9,428)	9	7,405,036
Discount notes	3	2,097,431	(31,125)		3	32,128,556
Interest rate exchange agreements associated with consolidated obligations			3	8,152		(38,152)
Consolidated obligations, net	_12	9,463,039	(3	2,401)	12	29,495,440
Accrued interest payable		3,888,254		_		3,888,254
Other liabilities		170,157		_		170,157
Interest rate exchange agreements in which the Bank is an intermediary				(290)		290
Total	\$13	3,897,863	\$ (3	2,691)	\$13	33,930,554

FAIR VALUE SUPPLEMENTAL TABLE

The Bank enters into some interest rate swap agreements that a counterparty may cancel at its option. While the counterparty generally may exercise this option to cancel at any specified cancellation date, the movement of interest rates usually determines whether the option will be exercised. If the interest rate swap agreement has a positive fair value from the Bank's

perspective, the counterparty is likely to exercise the option assuming interest rates and volatilities remain the same through the next cancellation date of the instrument. The following table categorizes interest rate swap agreements as non-cancelable, cancelable by the counterparty, and cancelable by the Bank as of December 31, 2000.

FAIR VALUE SUPPLEMENTAL TABLE - 2000

INTEREST RATE EXCHANGE AGREEMENTS (BY CLASS)	NOTIONAL PRINCIPAL	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Interest rate swaps:					
Non-cancelable:					
Bank pays fixed, receives adjustable	\$ 39,208,574	\$ —	\$ 96,674	\$ (256,250)	\$(159,576)
Bank pays adjustable, receives fixed	49,394,945	_	187,383	(115,682)	71,701
Bank pays adjustable, receives adjustable	28,257,747	_	3,324	(21,629)	(18,305)
Cancelable by counterparty:					
Bank pays adjustable, receives fixed	35,341,300	_	76,637	(92,693)	(16,056)
Bank pays fixed, receives adjustable	1,786,000	_	1,428	(24,943)	(23,515)
Bank pays adjustable, receives adjustable	862,550	_	1,010	(744)	266
Cancelable by Bank:					
Bank pays fixed, receives adjustable	892,300		149	(7,369)	(7,220)
Subtotal	155,743,416	_	366,605	(519,310)	(152,705)
Interest rate caps purchased	1,178,610		2	(12,316)	(12,314)
Total	\$156,922,026	\$ —	\$366,607	\$ (531,626)	\$(165,019)

NOTE 16 - COMMITMENTS AND CONTINGENCIES

As indicated in Note 11, all FHLBanks have joint and several liability for the consolidated obligations issued on their behalf. Accordingly, should one or more of the FHLBanks be unable to repay its participation in the consolidated obligations, the other FHLBanks could be called on to repay all or a portion of such obligations.

Commitments that legally bind and obligate the Bank for additional advances totaled approximately \$67,786 and \$445,000 at December 31, 2001 and 2000, respectively. Commitments are generally for periods up to 12 months. Outstanding standby letters of credit were approximately \$841,483 and \$682,713 at December 31, 2001 and 2000, respectively. Based on management's credit analyses and collateral requirements, no allowance for losses is deemed necessary by management on these advance commitments and letters of credit. Advances funded under these advance commitments and letters of credit are fully collateralized at the time of issuance in a manner consistent with advances to members (see Note 7).

These credit-related financial instruments have off-balance sheet risk, which is essentially the same as that involved in extending advances to members. The credit risk amounts are equal to the amounts of the transactions assuming that the members completely fail to meet their obligations and the collateral or other security is of no value.

The Bank executes interest rate exchange agreements with major banks and broker-dealers that have long-term credit ratings of single-A or better from both Standard & Poor's and Moody's Investors Service. The Bank enters into bilateral security agreements with all counterparties. As of December 31, 2001 and 2000, the Bank had pledged as collateral securities with a carrying value of \$290,302 and \$360,636, respectively, to broker-dealers that have credit risk exposure to the Bank related to interest rate exchange agreements. In addition, as of December 31, 2001,

the Bank had pledged securities with a carrying value of \$1,159,135 as collateral to the Federal Reserve Bank of San Francisco as part of the Bank's contingent borrowing plans at that time.

The Bank charged operating expenses for net rental costs of approximately \$3,382, \$3,004, and \$2,047 for the years ending December 31, 2001, 2000, and 1999, respectively. Future minimum rentals at December 31, 2001, were as follows:

YEAR	PREMISES	EQUIPMENT	TOTAL
2002	\$ 2,945	\$ 56	\$ 3,001
2003	2,938	36	2,974
2004	3,072	21	3,093
2005	3,171	20	3,191
2006	3,192	1	3,193
Thereafter	8,059	_	8,059
Total	\$23,377	\$134	\$23,511

Lease agreements for Bank premises generally provide for increases in the basic rentals resulting from increases in property taxes and maintenance expenses. Such increases are not expected to have a material effect on the Bank's financial condition or results of operations.

The Bank is subject to various pending legal proceedings arising in the normal course of business. In June 2001, a Bank member obtained an arbitration award of \$7.9 million plus \$2.0 million in interest and costs in a dispute relating to certain advance transactions. The arbitration agreement provided either party with the right to seek independent review of the legal issues by the federal district court, and the Bank exercised that right. The Bank expects the district court to issue a decision in early 2002. After consultation with legal counsel, management believes that although an unfavorable outcome is reasonably possible, it is not probable at this time.

Other commitments and contingencies are discussed in Notes 8, 11, 12, and 14.

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